The Economist

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Politics this week

Jan 29th 2004
From The Economist print edition

The man to beat Bush?

EPA

John Kerry won the New Hampshire primary with 38% of the vote, pushing Howard Dean (26%) into second place. Wesley Clark squeaked ahead of John Edwards in third. Mr Kerry is now the clear frontrunner as the campaign moves to seven states that are holding their primaries on February 3rd.

See article: John Kerry's presidential chances

David Kay resigned as America's chief weapons inspector in Iraq. Mr Kay claimed that faulty intelligence was given to President George Bush about Iraq's weapons of mass destruction in the run-up to the war.

See article: Sadam Hussein's weapons mirage

The Congressional Budget Office added a trillion dollars to its forecast of the total **budget deficit** for 2004-13. Its biannual report, published a week before Mr Bush unveils his budget, also predicts a deficit of 4.2% of GDP for the current fiscal year.

The **Supreme Court** said it would hear a case later this year that will test the constitutionality of the death penalty for crimes committed by a juvenile. The case centres on a man convicted of murder in Missouri ten years ago when he was 17.

Blair scrapes through

Tony Blair survived two big threats to his authority. **Britain's** prime minister narrowly defeated a parliamentary rebellion over university-tuition fees and was cleared of knowingly inserting dubious claims about Iraq's weaponry into an intelligence dossier by an inquiry investigating the death of a government arms expert.

See article: Blair survives ordeal

Georgia's new president, Mikhail Saakashvili, was inaugurated in front of a gathering that included the American and Russian foreign ministers. The Georgians asked the Russians to keep a promise to pull out of their remaining military bases in the country; Colin Powell, the American secretary of state, endorsed the demand.

See article: American and Russian rivalry in Georgia

Mr Powell also visited Moscow, where he sharply criticised **Russia** for its lack of democracy, suppression of free media and brutal war in Chechnya in a newspaper article. In meetings with top-ranking Russians, including President Vladimir Putin, he was more restrained.

See article: Vladimir Putin coasts to re-election

Europe's governments rejected a pay rise for members of the **European Parliament**. The French, Germans, Swedes and Austrians said the rise, which would have given MEPs more than domestic parliamentarians, was too big. MEPs had proposed the increase in exchange for giving up their practice of inflating travel expenses to boost their incomes: presumably the practice will now continue.

A leading separatist was forced to resign as number two in the government of the Spanish region of **Catalonia**. Josep-Lluis Carod Rovira, leader of a leftist party that governs in coalition with the Socialist Party, had admitted holding a meeting with representatives of ETA, the Basque separatist guerrillas.

A bomber gets through

A **Palestinian suicide bomber** killed at least ten Israelis near the prime minister's official residence in Jerusalem.

Speculation continued to mount over the possibility that Ariel Sharon, **Israel's** prime minister, might be indicted on charges of involvement in bribery concerning a property developer and one of Mr Sharon's sons, Gilad. But it was unclear, even if he were indicted, whether he would resign.

See article: Sharon under investigation

Israel and Hizbullah, the Shia militia in Lebanon, began to exchange 436 Arab (mostly Palestinian) prisoners in return for one captured Israeli businessman and three Israeli soldiers presumed dead.

See article: Talks about talks between Israel and Palestine

Iraq's American-appointed Governing Council ordered an investigation into allegations that Saddam Hussein had bribed foreign politicians and businessmen, after an Iraqi newspaper named some 46 people and companies said to have been involved.

The **UN** secretary-general, Kofi Annan, said he would send a mission to Iraq in the next three weeks to find out if a general election could be held before the Americans hand over to a provisional Iraqi government by July 1st.

Iran's reformist president, Mohammad Khatami, said he was hopeful that the mass disqualification of reform-minded candidates in the country's coming general election, by order of the reactionary clerics in the Council of Guardians, Iran's highest body, would be reversed.

Lawyers defending those accused of masterminding the **Rwandan genocide** of 1994 went on strike, saying that the international tribunal was biased against their clients.

Liberia's two main rebel groups, which are serving in a transitional government, called for the country's interim leader, Gyude Bryant, to stand down. America said that no one would be allowed to disrupt the peace process.

See article: Nation-building in Liberia

Lula's busy week

Brazil's president, Luiz Inácio Lula da Silva, reshuffled his government. He named two former big-city mayors to run education and social development, and brought in two ministers from the PMDB, a centrist party that is the second largest in Congress. He then flew to India, where he proposed a free-trade agreement among the G20 group of developing countries.

See article: Lula reshuffles Brazil's government

César Gaviria, the outgoing secretary-general of the Organisation of American States, agreed with **Colombia's** president, Álvaro Uribe, that the OAS should monitor a controversial peace process in which thousands of right-wing paramilitary vigilantes are supposed to demobilise.

See article: A row over talks with Colombia's paramilitaries

In the **Dominican Republic**, workers held a two-day general strike in protest at the policies of the president, Hipólito Mejía. The economy collapsed after a massive bank fraud came to light last year.

A chance for peace

India and **Pakistan** announced that they would hold bilateral talks in Islamabad. The dispute over Kashmir is expected to dominate the discussions. Pakistan's president, Pervez Musharraf, said that a solution was possible if both sides were flexible.

See article: Prospects of negotiation over Kashmir

The authorities in **Pakistan** were reported to be interrogating Abdul Qadeer Khan, the father of the country's atomic bomb, and other scientists, on charges that they transferred nuclear technology overseas.

Avian flu spread to China, Japan, South Korea, Cambodia, Taiwan, Indonesia, Pakistan and Laos. In Thailand and Vietnam, where the disease was first identified, at least ten people have died and millions of chickens have been culled amid concerns that the virus could mutate and become more contagious.

EPA

See article: Asia's bird-flu epidemic

A suicide bomber drove a car into a group of British troops in **Afghanistan's** capital, Kabul, killing one. Earlier, a Canadian peacekeeper and an Afghan civilian were killed in another suicide attack.

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Business this week

Jan 29th 2004
From The Economist print edition

Poison pills

Sanofi-Synthélabo launched a bold hostile bid for a larger drug company, Aventis, valued at some *euro*48 billion ($60 billion). The French government gave cheerful assent to the creation of a national champion. Aventis rejected the offer, warning that 12,000 jobs could go. It may now seek another suitor. Its shareholders think the price offered by Sanofi is too low.

See article: The right medicine?

The European Union has reportedly decided that **Microsoft** has broken competition law after a lengthy antitrust case against the software giant. Microsoft may receive harsher penalties than those it suffered in settlement of an antitrust case in America.

See article: Microsoft's battles

Computers around the world using Windows fell victim to "**MyDoom**", the latest e-mail-borne virus to clog inboxes and slow networks. The attack appears to be aimed at the website of SCO, an American software firm that has angered open-source proponents by claiming that it owns code used by versions of the Linux operating system.

See article: Computer security

Crash landing

Ryanair paid the price for its rapid expansion. Profits in the latest quarter fell to *euro*41m ($49m). The Irish low-cost carrier warned that profits for the year would also decline. Ryanair, currently fighting charges that it received illegal state aid for flying to one Belgian airport, blamed intense competition from other budget flyers. Its shares plunged by 30%.

See article: Cheap airlines under fire

The gloom at **United Airlines** showed little sign of abating. Losses in the fourth quarter at its parent company fell to $476m compared with $1.5 billion in the same quarter a year ago; overall the airline lost some $2.8 billion over the year.

Up the Amazon

Amazon booked its first full-year profit of $35m in 2003. The company, which began as an online bookshop, now sells a wide range of goods. Jeff Bezos, Amazon's founder, listed some delicacies on sale that contributed to the success: "Tibetan yak cheese, pomegranate molasses and zero-carb cheese straws".

R.J. Reynolds lost $136m in the latest quarter, an increase from a loss of $59m a year ago. The American maker of Camel and other cigarettes faced falling sales and a restructuring charge as it attempts to combat competition from budget brands by promoting its more up-market products.

Kraft Foods is to lay-off 6,000 employees, around 6% of its workforce, and take a charge of $1.2 billion.

America's biggest food company also announced reduced profits for the latest quarter. Health-conscious consumers are apparently cutting down on its biscuits and pizzas.

Procter & Gamble, America's leading consumer-goods company, said that fourth-quarter profits rose 22% over a year ago to $1.8 billion. The acquisition of Wella, a hair-care business, and handy sales of over-the-counter medications after a fortuitously heavy cold and flu season in America, helped improve results.

A judge in Alaska ordered **Exxon** to pay $6.75 billion in damages for the 1989 Exxon Valdez oil spill. Exxon Mobil, the world's biggest publicly traded oil company said it will appeal. Exxon successfully fought a ruling in 1994 that it should hand over $5 billion in damages.

Erasing the past

Time Warner announced a profit of $638m in the latest quarter, reversing whopping losses of $45 billion a year ago when it wrote down the value of its America Online (AOL) unit. The media giant made $2.6 billion in a year that saw the departure of its chairman, Steve Case, the sale of its Warner Music division and the erasure of AOL from its name.

Sony said that quarterly profits had fallen by 26% from a year ago to ¥92.6 billion ($851m). The Japanese electronics firm suffered declining sales of its PS2 games console; its film division failed to match the success of last-year's blockbuster movies.

Shares in **UFJ**, Japan's fourth-largest bank, dropped sharply after a newspaper claimed that it had misled inspectors over the size of its bad debts. Investors worried that it may not be the only one.

See article: Japanese banks

Patient in recovery

America's **Federal Reserve** left interest rates unchanged at 1%, though it now says that it can afford to be “patient” before raising rates. Before it had said that rates would be kept low for a “considerable period”. Perplexed bond traders were a little spooked.

See article: Easy money

Consumer confidence surged in America according to January's figures released by the Conference Board. Although consumer sentiment hit a peak not seen since July 2002, it fell short of expectations; doubts still persist about continuing high rates of unemployment.

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John Kerry

The man to beat Bush?

Jan 29th 2004
From The Economist print edition

He might be. At any rate, he will stimulate a needed debate on America's role in the world

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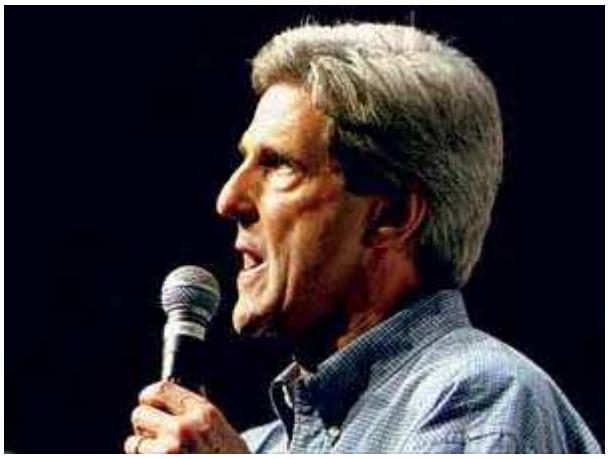

WHEN it comes to voting in an election, it is not always easy to decide which candidate you prefer. So why complicate an already difficult choice by trying to work out which candidate most other people might prefer? Mental gymnastics of this sort are coming to dominate the Democratic presidential campaign—and making John Kerry the clear front-runner. This week, as the Democrats in New Hampshire plumped for the senator from Massachusetts, the chiselled New Englander's chief selling-point was once again his apparent “electability”—the idea that he stands the best chance of beating George Bush in November (see article).

In it to win

Good. Democratic America is beginning to think with its head, not its heart. At the beginning of this month, Howard Dean, a former governor of Vermont whose fearsome anti-war rhetoric had made him the darling of many Democratic activists, had a 20-point lead in New Hampshire; Mr Kerry, who had voted for the Iraq war, was stuck in third place, behind Wesley Clark, another anti-war outsider. But then doubts about Mr Dean set in. Would America really vote for a man who refused to admit that Saddam Hussein's capture might be helpful and who wanted to repeal all Mr Bush's tax cuts? Democrats began to look at Mr Kerry's years of experience in the Senate and his record as a war hero in Vietnam in a new light.

Last week Mr Kerry won the Iowa caucuses, with another moderate senator, John Edwards, in second place. Then Mr Dean confirmed his own caricature with his unfortunate “I have a scream” speech. And now Mr Kerry has romped home in New Hampshire, with 38% of the vote, 12 points ahead of a chastened Mr Dean, with Mr Clark and Mr Edwards a distant third and fourth, and Joe Lieberman a disappointing fifth.

Next week the race opens up considerably, with ten primaries, including South Carolina and Oklahoma in the south, Arizona in the west and crucial swing states such as Missouri and Michigan. Mr Edwards will put up a strong fight in the south, as may Mr Clark. And Mr Dean has enough money conceivably to last all the way through to “Super-Dooper Tuesday” on March 2nd, when a third of the convention delegates will be up for grabs. But Mr Kerry has momentum and history on his side: the only two Democrats to have won both New Hampshire and Iowa in contested primaries in modern times—Al Gore in 2000 and

Jimmy Carter in both 1976 and 1980—went on to secure their nominations.

But is Mr Kerry really so electable? The Republicans point out that he has a more left-wing voting record in the Senate even than Ted Kennedy, his fellow Massachusetts senator (see article). He comes from much the same wealthy background as Mr Bush, and he has hardly been a font of new ideas in the Senate. In many areas of domestic policy, he has caved in to Democratic lobbies. In others, such as his opposition to capital punishment, his position looks more noble—but that does not mean that it will help him win over, say, white southerners.

So despite being a more moderate fellow than Mr Dean, Mr Kerry is some way from being the sort of New Democrat once represented by Bill Clinton (whom *The Economist* endorsed in 1992). But that option, alas, is not available this year: none of the candidates has chosen to stick to the Clintonian script. Thus Mr Kerry's claim to the nomination comes down to two pragmatic notions: that he is a better bet than the existing alternatives, and that he stands a chance of nobbling Mr Bush. On both counts, he is on firmer ground.

If you dismiss the new decaffeinated version of Mr Dean as still too strong for American tastes and accept that Mr Lieberman's case looks fairly hopeless, you are left with the two southern alternatives to Mr Kerry. Mr Clark still seems too new to politics; his claim to be the Democrat who understands war has been undercut by Mr Kerry's battlefield experience. Mr Edwards has an appealing optimism and a credible interest in domestic policy, but, with not even one term completed in the Senate, he has yet to prove himself in foreign policy. His best use to his party would probably be as Mr Kerry's running-mate—a southern populist balancing the Yankee patrician.

The odds still favour Mr Bush (see article). But on paper at least, a Kerry-Edwards ticket would stand a chance of snatching from the Republicans a Carolina in the south, as well as, say, West Virginia and maybe even New Hampshire. Given Mr Bush's non-existent majority in 2000, that could prove to be enough. Yet first Mr Kerry would have to start landing blows on the president.

Who will make America safer?

In terms of domestic policy, he does not look strong. Mr Bush deserves hauling over the coals for his stewardship of the government's finances, and his failure to reform America's creaking entitlement programmes. However, as a senator in the Congress that has indulged Mr Bush's spending habit, Mr Kerry is not particularly well placed to sponsor cutbacks. He also looks weak on education, and Mr Edwards, a trial lawyer, would be precious little help on legal reform. But Mr Kerry could usefully rally his party's liberal base by pointing out the White House's abuses of civil liberties and its failure to help the 44m Americans without health insurance.

Mr Kerry's strongest card, though, could prove to be foreign policy. As a supporter of the Iraq war, he can convincingly criticise the White House's exaggerations about weapons of mass destruction. The former war hero can credibly chide the administration for its post-war incompetence, especially if American casualties continue to mount. And, as a foreign-policy expert with a long record of internationalism behind him, he can plausibly broaden the debate, demanding explanations for why Mr Bush's foreign policy has left America so unpopular in so many corners of the world.

Mr Bush ought to be able to summon up good answers to these questions. But it is in America's interest that they are raised and debated by a Democrat who stands a chance of winning. For all his faults, Mr Kerry looks closer to fulfilling that role than any of the current alternatives.

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Tony Blair

I survived

Jan 29th 2004
From The Economist print edition

The prime minister has been vindicated by Lord Hutton, but recent events have still weakened him

Getty

Get article background

THIS week was the first time since he came to power in 1997 in which there seemed to be a serious chance that Tony Blair might lose his job. Britain's prime minister may be a hero to many Americans, and certainly to George Bush, but he has become unpopular in his own Labour Party and widely mistrusted by the British public. By Wednesday afternoon, however, he suddenly had a new spring in his step, a new self-righteous twang in his voice. Nothing looked more certain than that he would lead his party into the next general election, due in 2005 or, at the latest, in 2006. Quite probably, he will be prime minister for several more years, before handing over to his close colleague-cum-rival, Gordon Brown, the chancellor of the exchequer.

And yet this has indeed been a momentous week, one that will shape Mr Blair's government and much else in Britain for some time to come. His vindication on January 28th by Lord Hutton, following that judge's inquiry into the battle between the BBC and the government last year that ended up with the suicide of David Kelly, a biological-weapons expert, came just a day after Mr Blair came humiliatingly close to losing a vote in the House of Commons about one of its landmark public-sector reforms, on university finance. The prime minister will hope that his vindication will give him the chance to rebuild the public's trust in his government and thus his own political position. To some degree, he may be able to. But it is still going to be hard for the survivor to become a thriver, whether in domestic policy or in foreign affairs.

What's bad for the Beeb...

A cliché of business, these days, is that a good reputation takes years to build up but can be lost in an instant. That mantra has surely been doing the rounds of the BBC, a prestigious, highly respected organisation which took a real battering from Lord Hutton. That battering was justified. The report by Andrew Gilligan, defence correspondent of the “Today” programme on Radio Four, which in May 2003 incensed the government, was unfounded. Contrary to what Mr Gilligan said, the government did not insert a claim that Iraq could deploy weapons of mass destruction within 45 minutes knowing that it was false, nor did it do so against the wishes of its own spies. Sad to say, this report was typical of much of

modern British journalism: twisting or falsifying the supposed news to fit a journalist's opinion about where the truth really lies.

Some in the British media have described such journalism as “brave”. Sloppy or biased would be better words for it. And the big trouble was that it was done at a public-service broadcaster, whose reputation for reliability and authority gave the report its very credibility. The resulting furore, and now Lord Hutton's report, have dented that reputation. Worse still, the system of editorial control used by the BBC was shown to be weak, and neither the management nor the board of governors investigated Mr Gilligan's report properly once the government protested about it. All media organisations make occasional mistakes; but when complaints come they should be investigated carefully and if wrongs have been done they must be admitted to. Rightly, the chairman of the board of governors, Gavyn Davies, resigned promptly in response to Lord Hutton's criticisms. Greg Dyke, the corporation's director-general, followed soon after, and more heads may yet roll. Editorial-control systems have already been overhauled, but further changes are likely.

Despite all that, the BBC's reputation could well confound the business cliché. It was poorly led, its flagship radio programme has been too eager for sensational stories, and its governors need to be regulators of its managers, not cheerleaders for them. But Mr Gilligan and his report will still be seen by the public as an exception, not the rule. For the background to this furore, the war in Iraq, is still a subject on which most people are more inclined to trust the BBC than Mr Blair. The BBC's errors will, for many viewers and listeners around the world, be placed in the context of its generally good reputation for reliability, a reputation that can now be rebuilt. For Mr Blair, however, vindication over the Hutton report will be placed in the context of his now diminished popular reputation.

...is still not good for Tony Blair

Perhaps in politics the business saying needs to be adapted: a poor reputation for trustworthiness takes years to build, but cannot be dismantled in an instant. In Mr Blair's case, it is not quite fair to say that he has a poor reputation overall. He remains widely admired for his leadership abilities, and most pundits still expect him to win the next election comfortably. But he and his government have themselves twisted the news too often for the public readily to assume that the Hutton vindication represents the rule, rather than an exception. Moreover, on the government's treatment of Dr Kelly, Lord Hutton cleared it of deception but many will (quite reasonably) still consider its actions over the release of the scientist's name to have been incompetent. And his biggest problem remains the perception of the war in Iraq itself, and especially the glaring absence of the weapons of mass destruction he made such efforts to convince people about during the past two years.

As our leader argues, the currently available evidence suggests that neither Mr Blair nor Mr Bush lied about those weapons: they sincerely believed that they existed. But, in different ways, each exaggerated and stretched the case about what their various beliefs were based on. So far, Mr Blair has swatted aside calls for an independent inquiry into why the intelligence he received has turned out to be so wrong, and he did so again this week. But that refusal is unsustainable. There will have to be just such an inquiry, and the sooner he sets one up the better.

The main reason why it would be in his own, as well as Britain's, interest for him to hold an inquiry is that until the air has been cleared on that issue his freedom of manoeuvre in foreign affairs is going to be severely limited. Opposition to him in his own party is so strong and bitter over Iraq that he would now face a much bigger parliamentary rebellion if he were to propose supporting virtually any further American military action. Indeed, Mr Bush would do best to assume that Britain cannot again be at America's side—at least until an inquiry has been held and, of course, until Iraq has been made more stable and, preferably, democratic.

After such painful foreign controversies, the normal reaction is to say that you plan to concentrate on domestic policy. But Mr Blair has little freedom there, too. His hair's-breadth victory in Tuesday's Commons vote on university tuition fees took place despite having watered down his (sensible) proposal, and despite his party having one of the biggest Commons majorities in history. The Conservative Party showed brazen hypocrisy in opposing the plan. But the crucial fact is that much of Mr Blair's own party does not support his ideas for reforming Britain's public services (see article). He will now find it hard to introduce any further major reforms.

That has been the story of his premiership: running against his own party, sometimes bravely, sometimes timidly. His vindication this week does give him the chance to make a new start. But that

start is still from a much-weakened position.

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Iraq's elusive weapons of mass destruction

Saddam Hussein's weapons mirage

Jan 29th 2004
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George Bush and Tony Blair exaggerated, but they did not lie

BEFORE going to war against Saddam Hussein last March, George Bush and Tony Blair told the world they were certain that the Iraqi dictator possessed chemical and biological weapons, and long-range missiles, and was actively seeking an atomic bomb. This was the basis on which millions of Americans, Britons and others, including *The Economist*, supported the war. But ten months after the invasion, and despite the interrogation of hundreds of captured Iraqi officials, none of these weapons has been discovered. Even David Kay, the hardline inspector America had put in charge of the post-war weapons hunt, expects now that none will be (see article). After resigning from his job last week, he said that Iraq seemed to have got rid of them in the 1990s.

The absence of these weapons is more than just an embarrassment. It raises the question of whether this war was fought on a false prospectus. Above all, did the president of the United States and the British prime minister lie?

So far, the answer seems to be no. Not a scrap of evidence has emerged since the war to suggest that Mr Bush or Mr Blair doubted the truth of their central claim. Moreover, given the evidence available to them at the time, they were entitled to their pre-war confidence.

In October 2002, America's National Intelligence Estimate concluded that Iraq had chemical and biological weapons and would probably have a nuclear weapon within the decade (or a year, if it got enough fissile material from abroad). Britain's Joint Intelligence Committee reached similar conclusions. Though the BBC accused the British government of “sexing up” a dossier from this body, this week's report by Lord Hutton clears the government. So did the MPs of the Intelligence and Security Committee, which compared the dossier with the raw intelligence from which it was derived.

Did the spies tell their political masters only what they wanted to hear? Perhaps. But the spies reached their conclusions long before the election of George W. Bush and September 11th put the invasion of Iraq back on the agenda. The CIA gave the same reports to Bill Clinton, not one of nature's warmongers. Besides, the case against Iraq did not rest on intelligence alone. There was also the testimony of the UN inspectors: neither those forced to withdraw from Iraq in 1998, nor those who returned before last year's war, could give Iraq a clean bill of health. And underlying the suspicion was the behaviour of Mr Hussein himself. If he had nothing to hide, why forgo billions of dollars of oil revenues instead of ending sanctions by showing the inspectors he had fully disarmed?

In short, the case for believing that Iraq had clung in defiance of the Security Council to its proscribed weapons was overwhelming. Even France's Jacques Chirac, who opposed the war, referred a month before it to Iraq's “probable” possession of them. This newspaper was blunter. However sceptical one might be about the intelligence, we said, “only a fool or a knave” would accept Mr Hussein's plea of innocence: a country with Iraq's record deserved no presumption of innocence.

So Messrs Bush and Blair seem to have believed, with good reason, that Iraq possessed proscribed weapons. What if, as now seems probable, they were nonetheless wrong? Then, as Mr Kay argues, there must have been a massive failure of intelligence. Though some of the spies continue to insist, like Mr Blair and America's Vice-President Dick Cheney, that the illicit weapons or material will turn up in due time, Mr Bush himself has begun to wax less adamant. Intelligence cannot always be definitive. But Britain and America need to investigate what looks like a comprehensive spying failure that will haunt policymakers next time they are called on to deal with a rogue state believed to be building an atomic bomb.

Not fibbing, but stretching

Still, the politicians are not off the hook. Did president and prime minister, sincerely believing their central claim against Iraq, allow their conviction to distort the evidence they put before their people? It looks that way. Mr Bush conjured up a link between Iraq, al-Qaeda and September 11th that probably did not exist. He created an impression of a threat to the American homeland that the intelligence does not seem to justify. And when tabloid newspapers read Britain's dossier to mean that Britons themselves could come under chemical attack within 45 minutes, Mr Blair did not trouble to put them right.

None of this exaggeration was necessary. The case for war rested on Iraq's possession of proscribed weapons; Iraq seems to have got rid of them before the war began. But the pre-war decision could be based only on what was known at the time, and Iraq shrouded the true facts in ambiguity—despite the UN's orders to prove that it had disarmed. Given Mr Hussein's record, that should have been justification enough for war.

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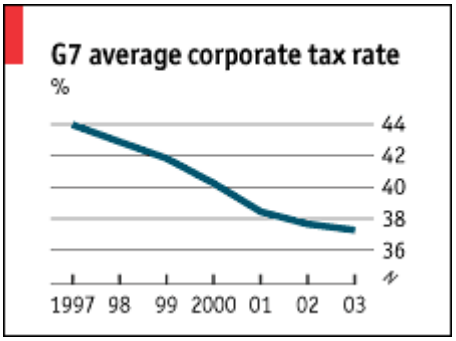
Corporate tax

Time to hiss

Jan 29th 2004
From The Economist print edition

A bad tax whose time has gone



COMPANIES, especially big multinationals, look like tempting targets for the taxman. Multinationals make lots of money. They are not popular. Unlike individual taxpayers, they do not vote. On the other hand, as firms have become more multinational, generating profits worldwide, the claim of any particular tax authority that its jurisdiction is the source of this profit becomes harder to sustain. The bigger the company, the easier it is to employ lots of clever people to reduce its tax bill—and to shift profits to countries where the tax burden is lower. The result has been growing friction between the taxmen and multinational firms (see article).

Even as the bickering has increased, corporate tax receipts as a share of GDP, never very high, have been falling. In America, corporate tax revenues have fallen from 4% of GDP in 1965 to barely 1% of GDP now. Indeed, they have been falling for years in just about every big industrial country. The exceptions have mainly been those countries, such as Ireland, that have sensibly lowered corporate taxes to attract new firms and investment. This has increased their tax take. As firms run themselves more globally, there is less to stop them moving. Such pressure has already forced governments to reduce corporate tax rates. In the richer countries which belong to the Organisation for Economic Co-operation and Development (OECD), rates have fallen from 37.5% in 1996 to 31% last year.

Governments have responded to tax flight in two other ways. The first has been to increase the number of rules and to enforce them more strictly. Much attention has been paid to so-called “transfer pricing”, the prices at which subsidiaries of the same firm move goods across national boundaries. Predictably, firms often set these prices to minimise their tax liability, and sometimes tax authorities object. Transfer pricing is central to the case against GlaxoSmithKline, a big drugs company that is appealing a bill for $5.2 billion of unpaid taxes slapped on it recently by American tax collectors.

Another way in which governments have tried to crack down is by “harmonising” their tax rates—in effect, trying to enforce a government cartel. This terrible idea was briefly championed by the OECD, which in the late 1990s attacked what it saw as “harmful” tax competition, though it has since modified its view. It is more understandably expressed by some EU countries (though not by those with low tax rates). Existing members are worried about Estonia joining the European Union in May because it levies no corporate taxes at all.

Rather than worry about Estonia, all governments would do better to follow its example, ditch corporate taxes altogether and rely more on taxing consumption. One approach would be greater reliance on value-added taxes, which are already used throughout Europe (similar sales-based taxes are common elsewhere). These are easy to collect, hard to evade and far less distorting of spending and investment decisions by individuals or firms. Alternatively, tax personal incomes net of saving: this way, the “progressivity” of a consumption-tax system can be fine-tuned.

Getting rid of corporate taxes would save the vast sums spent by taxmen and firms in the cat-and-mouse game of tax avoidance. And it would have another big benefit. It would eliminate any excuse for the complex corporate structures that companies use to play this game. As recent scandals have shown, these complexities mislead not just the taxman but can do even more damage by misleading investors as well.

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Microsoft

Déjà vu all over again

Jan 29th 2004
From The Economist print edition

What will it take to end Microsoft's seemingly endless round of legal battles?

AP

ANOTHER year, another antitrust showdown for Microsoft, the world's biggest software company. It all sounds horribly familiar. Once again, the company has fallen foul of regulators who accuse it of exploiting the monopoly of Windows, its desktop operating-system software, in order to dominate adjacent markets. Four years ago, American trustbusters argued that Microsoft had crushed makers of rival web-browsers by building its own browser into Windows, thus ensuring its ubiquity, since Windows is installed on over 95% of PCs. This time around, its opponent is the European Commission, which is soon expected to issue a ruling that Microsoft has done the same thing again with its media-player software, and is using the dominance of Windows to monopolise the market for software on bigger “server” computers as well (see article). The victims and the investigating police force may be different, but the perpetrator, murder weapon (Windows) and *modus operandi* are identical. The European case is, in effect, a re-run of the American case in which Microsoft was found guilty four years ago.

Two conclusions can be drawn from this state of affairs. First, it is clear that the settlement agreed with America's trustbusters in 2002 has had little or no impact on the firm's conduct. Although Microsoft was found guilty of illegally “tying” its web-browser to Windows, and was initially ordered to be broken in two, the far more lenient settlement that was eventually agreed made no attempt to prevent similar tying in future. The European Commission has proposed two alternative remedies to address the problem of tying: one would force Microsoft to make a stripped-down version of Windows without various add-ons, and the other would require Microsoft to include rival firms' software with Windows. Both of these remedies, however, have serious drawbacks. In the end, Microsoft may well escape with just a fine and yet another bundle of ineffective restrictions on its behaviour.

All of which leads to the second conclusion: that Microsoft's exploitation of its monopoly will continue as long as the monopoly itself does. A likely candidate as its next victim is Google, the company that dominates the internet-search business. Another possibility is Apple, current top-dog in the small but rapidly growing market for legal music downloads with its iTunes software. This week Microsoft launched a Google-like search “toolbar”, and has stated its plans to build internet-search features into Windows. Similarly, Microsoft plans to launch its own online-music store later this year, tied to its now-dominant media player. Expect the market share of iTunes, currently at 70%, to plummet.

Isn't this simply a matter of Microsoft competing vigorously? The strange thing is that its products invariably succeed in PC-based markets where the dominance of Windows provides an advantage: office productivity, web-browsing, media playback and servers. Yet in other markets that have nothing to do

with PCs, such as mobile phones, set-top boxes and games consoles, the company is far less successful. Odd, that.

This newspaper has long argued, and still believes, that a break-up of Microsoft is the only remedy that would have any impact on its conduct, by removing its key weapon, Windows. At the moment that seems out of the question. How else might Microsoft be stopped from illegally exploiting its monopoly? By the long-awaited rise of open-source software such as Linux, maybe, though that seems unlikely. Perhaps the company will eventually conclude that the costs, in bad publicity and constant legal battles, of maintaining its monopoly exceed the benefits, and choose to divest or open up Windows itself. But that also seems implausible when there are large monopoly rents to be had. Some day a break-up of this too-mighty firm will again have to be considered.

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Turkey

The importance of backing Erdogan

Jan 29th 2004
From The Economist print edition

The many reasons for supporting a pivotal Muslim country

EPA

IT WAS a symbolic moment: an avowedly Islamist leader of a Muslim country that had refused to join the coalition against Iraq, invited into the White House. Yet George Bush was right to extend this honour to Recep Tayyip Erdogan this week. Although the Turkish prime minister and his Justice and Development Party have Islamist roots, they are proving in office to be of the liberal variety that believes in free markets and secular democracy. If democracy is to be successfully fostered across the Muslim world, especially in Arab countries, it is vital to encourage this Turkish exemplar.

Encouragement means more than just White House receptions. Over Iraq, for example, although the idea of deploying Turkish troops has been dropped, the Americans should reassure the Turks that they will not support Kurdish separatism, which would risk stirring up Turkey's Kurdish minority. They should also be ready to let Turkish firms bid for reconstruction contracts. On the economy, the IMF and other creditors should offer the Turks, who have been taking most of the right economic medicine, more generous terms on loan repayments. But what Mr Erdogan wants most is a date for opening negotiations to join the European Union.

The EU is to decide on this in December. Plenty of voices are raised against. Turkey is too big (it will soon have more people than Germany), too Asian, too army-dominated, too abusive of human rights—above all, too Muslim. Yet none of these arguments stands up to scrutiny. Size cannot logically be a bar to membership. The bulk of Turkey is indeed in Asia, but a chunk is clearly in Europe and much of the country is west of Cyprus, which is joining soon. The army is strong—Turkey has long been a bulwark of NATO—but Mr Erdogan has stood up to the generals, most recently over Cyprus. The country's human-rights record is improving: Kurds are better treated, torture in prison is rarer, the death penalty is suspended. In short, Mr Erdogan's Turkey is well on the path to fulfilling the democratic and other criteria needed to qualify for the EU.

Which leaves just two big issues. One is Islam. Some Europeans, especially in the Christian Democratic tradition, prefer the EU to be a Christian club. But that is an untenable position. For one thing, millions of Muslims already live in EU countries. Albania and Bosnia, clearly in Europe and so eligible for EU entry one day, are mainly or partly Muslim in heritage. Turkey has already been accepted as a potential candidate. To reverse that now would send a dreadful signal to pro-western and pro-democratic forces in other Muslim countries. It would be a geo-strategic error of historic proportions.

The other knotty problem is Cyprus. Turkey's occupation of the northern, Turkish-Cypriot part of the island means that, on May 1st, only the southern, Greek-Cypriot part will be admitted to the EU—unless negotiations to unite the two parts succeed before then. As it happens, Mr Erdogan promises much here too. He has pushed the recalcitrant president of northern Cyprus, Rauf Denktash, into accepting a coalition government that wants to reopen negotiations that at least take into account the UN plan for unification. By pitching his appeal for negotiations carefully, he has secured the assent of the army, which sees northern Cyprus as a strategic asset.

Sorting out Cyprus will not be easy: it has eluded outside peacemakers for 30 years. The chances of reaching a settlement before May 1st are slim. But the entry of Cyprus into the EU, along with Turkey's own aspirations to join, have created the best chance so far of reuniting the divided island. Mr Erdogan should be left in no doubt that he must deliver the Turkish side of Cyprus if he is to have his date for opening EU negotiations. But so long as he does, the EU must say yes.

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Letters

Jan 29th 2004
From Economist.com

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Fuel of the future

SIR – You do well to flag up the environmental and economic ambiguities of fuel-ethanol production ("Dirty as well as dear?", January 17th). However, there are clearer messages emerging than you suggest. The International Energy Agency (IEA) has found that although in a few cases ethanol production uses more energy and produces more greenhouse-gas emissions than the petrol it would displace, recent large-scale production practices do pretty well, providing a net energy gain of 30-40% compared with petrol and reduced emissions. Most recent studies, except that of David Pimentel, agree on this. In the future, ethanol derived from cellulosic feedstocks (using biomass to provide the process energy) will do much better, reaching a 70-90% gain. In Brazil this production method appears to achieve this level of performance today. Ethanol in Brazil also costs much less to produce than in member countries of the IEA, where the cheapest production is still double the price of petrol. That said, the costs are declining as technologies improve, and there are increasingly valid grounds for growing government support.

The obvious policy advice is that any subsidy for ethanol production should be sensitive to the energy inputs, emissions and other environmental impacts of production, and that it may make sense to develop an international trade in ethanol and let those who do it best (eg, Brazil) help to supply the rest of us.

Lew Fulton
Tom Howes
IEA
Paris

Rotating slowly

SIR – In your article on Europe's corporate governance you indicate that auditor rotation was introduced in America by the Sarbanes-Oxley act. ("Parma splat", January 17th). Unfortunately, the act only requires the rotation of lead audit partners every five years, after which they are subject to a five-year "time-out" period. Other audit partners must rotate after seven years and are subject to a two-year time-out. Neither the Securities and Exchange Commission nor the American stock exchanges have compensated for this weakness in the legislation by requiring auditor rotation independently. Consequently, companies that have used the same auditors for years and have developed close, and in some cases incestuous, relationships with them will not be inconvenienced.

John Garvey
New York

Margin for error

SIR – In 1998 and 1999 *The Economist*, as well as others, argued that America's Federal Reserve should tighten monetary policy to let some air out of the stockmarket bubble ("The trouble with bubbles", January 10th). However, as Alan Greenspan argued, this would risk deflating the entire economy. Why did not *The Economist* counsel raising margin requirements? This would have sent the proper signal that market valuations were causing concern to the Fed. Raising margin requirements would have been a surgical strike to prick the bubble without the risk of collateral damage by letting the air out of the entire economy.

Frank Ketcham
Sausalito, California

Unmanifest destiny

SIR – Your article on the Amazon does not let the facts get in the way of a good story ("The Amazon's Indian wars", January 17th). The state of Roraima is roughly the size of Portugal, and has a population of 325,000, most of whom are non-Indians and recent settlers. There is more than enough land for everyone, and most people would think Roraima's Indians generous in ceding as much land as they have to arrivistes. Moreover, the development supposedly being stunted is non-existent: 95% of the state budget is federal subsidy rather than locally generated taxation. What entrepreneurial initiative exists in Roraima is, shall we say, misdirected.

Mysteriously, you make no mention of the scandal that has seen the arrest of the previous state governor and implication of most of the local political elite in a massive fraud involving ghost employees on the state payroll. The current (and deeply implicated) governor's complaint that he presides over a "virtual state" is thus an unfortunate turn of phrase.

David Cleary
The Nature Conservancy
Belém, Brazil

Lots in space

SIR – I think you "misunderestimate" George Bush's recent space proposals ("A grand but costly vision", January 17th). They are neither about science nor prestige. Rather, these proposals are part of what might be called the administration's "strategic-offence initiative"—a commitment to maintaining and enlarging indefinitely the capability gap between the United States and the rest of the world. The president's goal is not an extended human presence on the moon but the unique capacity to maintain an "extended American presence" there. The trip to Mars is largely a cover story. As Tip O'Neill might have said: all space exploration is local.

Adam Rose
Chicago

SIR – You are right that the space shuttle is expensive and unsafe but the idea that manned space flight is a waste of NASA's time and resources is not correct. The cost of sending humans into space is high because of the risks involved. While there are entrepreneurial pioneers in privately funded space flight, none has yet reached outer space. Flight through the atmosphere is affordable for many people; flying through space is much more expensive.

While NASA may be best at purely scientific missions, it should also explore the frontiers of human endurance. Humans now know how to live in outer space while circling within 500 miles or so of Earth. Entrepreneurs can now use what NASA has learned to take over that part of the business while NASA gets down to learning how to extend man's reach beyond the gravitational grip of our "pale blue dot".

Frederick Maidment
Torrington, Connecticut

Coffee and a burger

SIR – You report that a purchasing-power parity measure based on Starbucks's tall latte indicates that the Chinese yuan is not undervalued, whereas the Big Mac index suggests that it is ("Burger or beans?", January 17th). The two indices differ most for Asian economies. Since in this part of the world people commonly lack the lactase enzyme and consequently cannot digest milk, tall lattes are priced to the western expatriate market. I suggest you consider an espresso index.

Petra Gerlach
Hong Kong

SIR – As a firm believer in the Big Mac index, I am dismayed to learn that its basic concept of comparing an identical consumer product across countries is under threat. According to the January 16th edition of

Folha de São Paulo, the Brazilian Big Mac has only 490 calories compared with 590 calories in the American version. Will you make calorie adjustments to obtain reliable purchasing-power parity indicators or shall we plead with McDonald's to up the calorie count in our Big Macs?

Bernd Weyersbach
São Paulo

ONLINE ARTICLES

The following correspondence refers to articles published only online

Should heads roll?

SIR – In "Bush and Blair under fire" (Global Agenda, January 27th), you conclude: "A worst-case scenario is just about imaginable: both Mr Bush and Mr Blair are forced to step down, over either the case they made for war or the treatment of those officials who questioned it." For many of us throughout the world, this would be the best-case scenario.

Keith Watson
Cape Town

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America's election

Eatanswill revisited

Jan 29th 2004
From The Economist print edition

The new rules of politics in a 50:50 nation

Mary Evans

> Every man in Eatanswill, conscious of the weight that attached to his example, felt himself bound to unite, heart and soul, with one of the two great parties that divided the town—the Blues and the Buffs. Now the Blues lost no opportunity of opposing the Buffs, and the Buffs lost no opportunity of opposing the Blues; and the consequence was, that whenever the Buffs and Blues met together at public meetings, Town Hall, fair or market, disputes and high words arose between them. With these dissensions it is almost superfluous to say that everything in Eatanswill was made a party question. There were Blue shops and Buff shops, Blue Inns and Buff Inns;—there was a Blue aisle and a Buff aisle in the very church itself.

IN 2004, America is holding an Eatanswill election. Red states (Republican) and Blue (Democratic) are replacing the Blues and Buffs of Dickens's “Pickwick Papers”.

This year's race is the first presidential contest since the terrorist attacks of September 2001 raised fundamental questions about the nature and direction of American foreign policy. Equally profound disputes exist over social programmes and economic management when the baby-boomers start to retire. “Cultural issues”—in this election, attitudes to gay marriage and the appointment of anti-abortion judges—testify to America's persistent disputes over basic social values.

And America, like Eatanswill, is split down the middle. Party identification remains at parity, with around 45% of voters calling themselves Democrats and 45% Republicans. Perhaps surprisingly for an election held in the aftermath of a seismic change in the international scene, there are few signs, as the electoral year begins, of profound electoral shifts. The working assumption must be that 2004 will see continued trench warfare between equal and opposing forces. And that has big implications both for George Bush and for the nature of the 2004 contest.

The first rule of presidential re-election campaigns is that they are referendums on the incumbent. Americans, it is assumed, let the president do his job for three-and-a-half years without coming to any firm conclusions. Then, the summer before the vote, they make up their minds about whether he deserves another term. If the answer is yes—as it was for Bill Clinton in 1996 and Ronald Reagan in 1984— there is not much the opposition party can do.

If this rule still applies, then Bush-as-incumbent starts in a strong position. Despite justified Democratic

complaints about weak job growth, the economy is roaring back. Business investment is recovering and Americans are feeling flush. The University of Michigan index of consumer sentiment is the highest it has been at this stage of the election cycle. Thanks to booming house prices and a recovering stockmarket, total household wealth at the end of 2003 reached $42 trillion, almost back to the peak of the 1990s share bubble. If strong growth benefits the incumbent party—which it did not do in 2000—this year's economy should produce a Bush landslide.

On top of that, Republicans like to point out, Mr Bush's personal ratings have been high and durable. His approval ratings have been at 55% or more in 90% of the polls taken during his first three years in office. Mr Clinton's were at 55% or more in only one out of seven.

Mr Bush has maintained the Republicans' traditional dominance over “Daddy issues” such as national security, the war on terror and Iraq. And thanks to his education-reform bill and last year's grant of a prescription-drug benefit through Medicare, he has been able to reduce, sometimes even erase, the Democrats' traditional advantage in “Mommy issues” such as education and health.

Most important, say Mr Bush's re-election advisers, the president may have altered the 50:50 landscape—not a lot, but possibly enough to tilt a close election. The 50:50 split itself represents a historic gain by Republicans. As recently as the late 1970s, the Democrats had a 30-point advantage in terms of party identification.

Moreover, say Republicans, the Red bits of America are expanding. Mr Bush carried 30 states in 2000. Seven of them grew in population in the 1990s, so they have gained congressional seats (and electoral college votes; see chart 1). Al Gore won 20 states in 2000. Only one of those, California, gained population and seats, while six saw losses. This means that the Republicans have merely to stand still in order to gain—that is, if the results of 2000 are repeated exactly in 2004 and the parties win the same states.

From Blue to purple

But Republicans are doing better than stand still. In the 2002 mid-term elections, they won 51% of the vote to the Democrats' 46%. This was the first apparent break in the 50:50 deadlock. In the previous three presidential and mid-term elections, neither side had won 50% of the vote—the first time since the 1880s that this had occurred.

Republicans now have more state legislative seats than Democrats for the first time in 50 years. In 2002, they won three-quarters of the governorships and Senate races in Red states, while Democrats won only half the governorships and two-thirds of Senate races in Blue ones. In recent governor's elections in four southern states—Georgia, South Carolina, Mississippi and Kentucky—voters have switched from Democrats to Republicans. In 2003, in one of the bluest of Blue states—California, which Mr Gore had won by 11 points—a Republican won the governorship by 17 points. As Republicans tell it, Red states are getting redder, while Blue ones are going purple.

All this is certainly cheering for Mr Bush. And if the first rule of incumbency applies (that voters make their choice in the summer), then the president looks in good shape. But does it apply? A Gallup poll taken as long ago as last October found that three-quarters of registered voters had made up their minds even then. They were exactly split: 38% would vote for the president's re-election and the same share against. Since then, the share of the electorate up for grabs has shrunk further. Now 90% have made up their minds, and they remain split down the middle on Mr Bush. The new reality is that, in a polarised nation, no incumbent can be safe.

This puts a different gloss on Republican arguments that Mr Bush starts from a position of strength and should be expected to win. His personal ratings, though historically strong, can be explained by the prolonged rally round the president after September 2001 and by the more recent capture of Saddam

Hussein. As these effects fade, Mr Bush is being pulled remorselessly towards parity.

His job-approval rating remains strong, but is not backed up by support on specific issues (see chart 2). This could suggest a Reaganesque popularity that transcends issues, or it could denote a hollowness in his support. While Mr Bush's advantage in national security remains wide, Democrats have regained their edge in matters as varied as the economy, the budget deficit, immigration and health care. Mr Bush's strength appears narrowly based on perceived "leadership qualities" and his position as commander-in-chief.

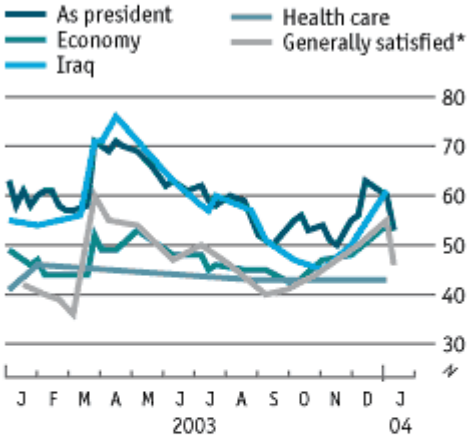
It is also overwhelmingly rooted in his own party. Around nine-tenths of Republicans approve of his performance in office, and Mr Bush faces no serious opposition in the primaries. This seems important: since 1952, no president unchallenged in the primaries has ever lost a bid for re-election.

But less than a quarter of Democrats approve of his performance. And independents, though not numerous, veer closer to the Democrats' hostility (see chart 2). Mr Bush's policies and, still more, his demeanour—especially his tendency to speak in moral absolutes—have served to harden, rather than ameliorate, the polarisation of the country which existed before he took office.

Fairly firm opinions 2

George Bush's approval ratings:

%



by party identification†, %

	Rep	Dem	Indep
As president	88	21	56
Economy	87	22	49
Taxes	87	30	50
Iraq	89	31	59
Foreign affairs	88	34	52
Health care	64	23	39

*Respondents "satisfied" with the way things are going in America †January 2004

Source: Gallup

What about Republican claims to have moved the country slightly in their direction in 2002? Even these may not be quite what they seem. At least some of the party's success is the result of special factors, such as a round of gerrymandering and an unusually feeble cadre of Democratic candidates. But the main story of the 2002 campaign was that traditional Republican voters, such as white southerners, turned out to vote in record numbers while traditional Democratic groups did not. That explains why Republicans did so well in Red states while Democrats did poorly in Blue ones. But that does not necessarily mean that the country as a whole has changed much, merely that one party was better at squeezing advantage out of a polarised electorate.

In short, half the electorate is, or leans, Democratic and Democrats show no sign of warming to Mr Bush. They won the popular vote in 2000 by half a million votes; and the additional 3m votes that went to the Green candidate, Ralph Nader, will probably go Democratic this time, unless Mr Nader decides to run again. With independents also leaning against Mr Bush, Democrats have every reason to think the 2004 race starts at 50:50.

From TV to GOTV

That obviously has implications for Mr Bush: he is beatable. It also has implications for the electoral contest itself. For, like the rich, 50:50 races are different; in some ways, they return to an earlier tradition.

Post-war elections were races to the middle. Politicians would identify groups of unaffiliated voters—soccer moms and office-park dads have been recent favourites—and cast their net there. Or they would seek out wobbly voters on the other side, such as "Reagan Democrats". When the Republicans won back the House of Representatives in the Gingrich landslide of 1994, many of their votes came from people who had previously identified themselves as Democrats.

In these circumstances, turnout did not matter. Large swings decided the outcome. And the way to catch most voters was to advertise on network television, since everyone watched the three big networks. Elections were won or lost in "the air war".

But if 90% of voters have already made up their minds, large swings are impossible. "There is no middle," as Karl Rove, Mr Bush's chief strategist, told the *New Yorker*. You win by making incremental gains at either end of the spectrum.

In these circumstances, turnout is more important. As we will see, this does not make independents irrelevant. But the first consideration is to fire up your own supporters, while suppressing intensity of feeling on the other side. That is what decided the 2002 election. The strategy requires building up grass-roots, get-out-the-vote (GOTV) operations rather than television advertising. Such advertising has anyway reached saturation point, with hundreds of stations. But the main reason GOTV is more important now is that, in close races, mobilising just one or two voters in each precinct can make the difference. These 50:50 elections are turnout races, fought in a “ground war”.

All this makes for a different and dirtier politics. On the morning of Dickens's Eatanswill election, the Buffs stood Blue voters free brandies laced with laudanum. They woke up the next day. The Buffs also bribed coachmen carrying Blue voters to upset their carriage in a ditch.

In America, the two parties are more subtle and ambitious. They are engaged in an arms race of grass-roots organising. Inspired by the success of the Gore operation in the last gasp of the 2000 election (which improved the final Democratic vote compared with eve-of-voting opinion polls), the Republicans launched their “72-hour Project”. The aim is to register 3m new Republicans and ensure that they vote.

The project had a dry run in the 2002 mid-term elections. In Georgia, the Republicans mailed 5m letters and sent 3,000 volunteers to scour the rural counties. The result was a huge rural turnout that unseated the incumbent Democratic senator and governor against all expectations.

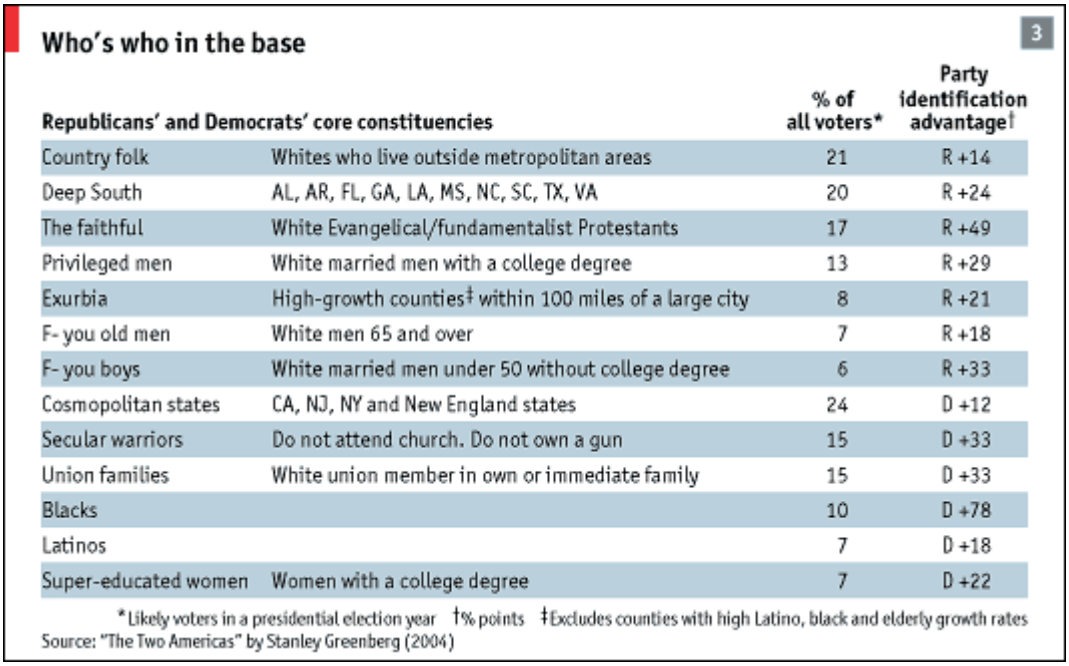
Not to be outdone, Democrats have their own turnout programme called Project 5104 (51% in 2004). Two dozen trade unions, environmental groups, pro-choice organisations and other usual suspects have banded together in an effort called America Votes. One group, called America Coming Together, has been given money by George Soros to mobilise votes in 17 battleground states. Voices for Working Families is doing the same for blacks and Latinos; Partnership for America's Families focuses on big cities.

The groups are controversial because they exploit loopholes in the McCain-Feingold campaign-finance law. But, like the 72-Hour Project, their effectiveness is beyond doubt. Partnership for America's Families registered 86,000 voters in the mayoral election in Philadelphia last year: an astounding number for a city of 1.5m and, it turned out, decisive. The Democratic incumbent, John Street, won by 85,000 votes.

In the turnout wars, the Republicans may have a small advantage. Mr Bush is on course to raise $200m, about half of which will go on GOTV operations. The Democratic candidate will not be able to match that, though he will probably not be outspent by much. It may also be slightly easier for Democrats to rally their troops: they tend to be concentrated in cities, whereas Republican voters are scattered in outer suburbs and the countryside.

Redrawing the map

The Republicans' real advantage, however, comes from their command of the levers of government. One symptom of electoral closeness is an obsession with redistricting—gerrymandering district boundaries to maximise the number of seats you win even if voting patterns do not change. Republicans have used their control of the Texas legislature to pass a redistricting plan which may add six or seven Red seats in the House of Representatives.



Who's who in the base 3

Republicans' and Democrats' core constituencies		% of all voters*	Party identification advantage†
Country folk	Whites who live outside metropolitan areas	21	R +14
Deep South	AL, AR, FL, GA, LA, MS, NC, SC, TX, VA	20	R +24
The faithful	White Evangelical/fundamentalist Protestants	17	R +49
Privileged men	White married men with a college degree	13	R +29
Exurbia	High-growth counties‡ within 100 miles of a large city	8	R +21
F- you old men	White men 65 and over	7	R +18
F- you boys	White married men under 50 without college degree	6	R +33
Cosmopolitan states	CA, NJ, NY and New England states	24	D +12
Secular warriors	Do not attend church. Do not own a gun	15	D +33
Union families	White union member in own or immediate family	15	D +33
Blacks		10	D +78
Latinos		7	D +18
Super-educated women	Women with a college degree	7	D +22

*Likely voters in a presidential election year †% points ‡Excludes counties with high Latino, black and elderly growth rates
Source: "The Two Americas" by Stanley Greenberg (2004)

Republicans also have the advantage of the presidential bully pulpit, and legislative advantage to fire up their base while neutralising their opponents. Mr Bush's decisions to promote anti-abortion judges and to oppose gay marriage are intended to rally Evangelical Christians, who make up almost one-fifth of the Republican base (see chart 3). Conversely, his plan to give legal status to millions of undocumented immigrants is intended to please Latinos, who tend to vote Democratic. It is unnecessary to persuade this group actually to vote Republican in large numbers; it is enough merely to persuade them to stay at home by softening their irritation.

A policy of competition for turnout has broad implications. If the election is won by mobilising your base, you do not need to concern yourself with the other side, except to limit its turnout. The priority is to make your supporters more enthusiastic and more angry than your opponents, and this will give partisanship a sharper edge.

It will also tend to balkanise the race. Turnout, by its nature, is a local affair that needs street-level knowledge. So turnout elections are not only national competitions, but 50 separate state races. Balkanisation reinforces partisanship further because, in local races, inflammatory charges about race, abortion or religion may fly under the radar screen.

This is not to say that turnout will be the sole consideration in 2004. At least one candidate, John Edwards, is using the language of the 50:50 nation to repudiate it (he promises to rise above the two Americas, with its two tax systems, two health-care systems and two governments). And if both parties turn out equal numbers of core supporters, it may be those few remaining independents who, paradoxically, decide the race.

And what might the result be? In Eatanswill the Blue candidate, Samuel Slumkey Esq., won after a riot. But that, of course, was fiction.

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About sponsorship

New Hampshire and beyond

The man who would be king

Jan 29th 2004 | MANCHESTER, NEW HAMPSHIRE
From The Economist print edition

Reuters

The Democratic nomination is still a contest, not a coronation for John Kerry. But what kind of contest?

AFTER his success in the Iowa caucuses last week, John Kerry's victory in the New Hampshire primary this week might not seem that surprising. It repeated his success in Iowa and owed a good deal to it. But it is still an astounding about-turn in the Granite State.

Less than three weeks before the vote, Mr Kerry had been 20 points behind in New Hampshire. In December, when the gap was 30 points, his candidacy had been declared dead. This week's margin of victory—12 points—amounts to a net change of an amazing 32 points in three weeks. It was the largest-ever winning total in a New Hampshire Democratic contest with more than two candidates. Comeback Kerry indeed.

Success breeds success. Mr Kerry raised over $1.1m in the week after his Iowa triumph. That is likely to soar higher now as deep-pocketed donors, hitherto made nervous by Howard Dean, commit themselves to the front-runner.

After Iowa, his standing rose in all seven states that hold their contests on February 3rd. With voters there only just tuning in to the nomination battle (and likely to see their primaries as referendums on Mr Kerry, rather than contests from scratch), his numbers could rise again. His money will also enable him to flood the airwaves. And, as the front-runner, he will be the focus of television and newspapers. Congressman Jim Clyburn, the most powerful black politician in South Carolina, has decided to endorse Mr Kerry, not John Edwards, who was born in the state. So have several of Missouri's most prominent Democrats.

In other words, the three Ms, money, momentum and media, are working to consolidate Mr Kerry's position on the top of the Democratic pile—just as the nomination battle shifts from intimate, door-to-door campaigning to the sort of impersonal speechifying and televised competition in which the three Ms matter more.

The success of Senator Kerry is all the more telling once you look at the trouncing of his rivals. Howard Dean got a quarter of the vote in what should have been his best state. New Hampshire adjoins his adoptive Vermont; he poured money and organisation into it and almost 60% of its voters have college

degrees. Yet, in exit polling, 40% of the electorate said they had an unfavourable view of him. He fired his campaign manager after the defeat, and his campaign chairman talked about the necessity of Mr Dean winning one primary in the next two weeks in order to maintain his army of internet donors.

Mr Edwards failed to convert his second-place finish in Iowa into New Hampshire success. He came fourth, narrowly beaten by the neophyte General Wesley Clark, who skipped the Iowa caucuses, had New Hampshire to himself for two weeks—and still got only 12% of the vote.

So does that mean the Democratic nomination will be a coronation? Unless Mr Kerry sweeps the board next week, that seems unlikely. The incentives for others to stay in are too strong.

The Democratic nomination is not a winner-take-all system. State delegates to the party convention are chosen roughly in proportion to the votes won in the primary. So gathering elected delegates is a slog, and only 67 of the 3,520 who will attend the convention have been picked; 269 are up for grabs on February 3rd alone. There is a lot of play for—especially as the electorate seems volatile. One third of the Granite State's voters made up their minds in the final three days.

There is also a special factor that might encourage change. One of the reasons Mr Kerry held on to the position he won in Iowa was a lack of negative advertising. All the other campaigns were spooked by the way that Dick Gephardt's negative ads in Iowa put voters off himself as well as Mr Dean: Mr Gephardt came fourth and dropped out. So the New Hampshire campaign was relentlessly nice, up to the last minute. A powerful weapon against the front-runner was not used.

But the double-edged sword may not stay sheathed. Negative advertising is a way for other candidates to distinguish themselves from the front-runner, and it usually works. In the last days of the New Hampshire campaign, the attacks duly began. Mr Dean questioned Mr Kerry's consistency and judgment on foreign policy. Accusations of dirty tricks raised their ugly head. The campaign could easily become nasty and unpredictable again.

Usually, a drawn-out race signals disagreement over the party's policies—consider the fight between Al Gore and Bill Bradley last time, or the one between John McCain and George Bush. But not now. If you exclude the special case of the Iraq war, the two candidates who have espoused the most distinctive policies are Mr Gephardt (on the left) and Joe Lieberman (on the right). Mr Gephardt is out and, after coming a limp fifth in New Hampshire, Mr Lieberman is under pressure to retire gracefully too.

The success of Senator Kerry is all the more telling once you look at the trouncing of his rivals

All the main candidates drew overflowing, enthusiastic crowds. Voters said that, while they backed one candidate, they would be happy with several others. Turnout was a record.

All this suggests Democrats are animated at least as much by their desire to oust President Bush as by the kind of Democrat they want as their standard-bearer—and this animating factor is strong. Almost half of New Hampshire's voters said they felt angry at the administration; another third said they were dissatisfied. To judge from anecdotal evidence, Mr Bush's “compassionate conservatism” (designed to reach out to wobbly Democrats) has failed. Candidates and audiences gleefully mocked both his efforts at education reform and the prescription-drug benefit for seniors. He is so much disliked that anyone who can beat him will do.

Hence New Hampshire voters broke one of the first rules of American politics: that voters don't vote strategically. This time, they did—on the mystical issue of “electability”. A third of primary voters said they picked the man who they thought could beat Mr Bush. Nearly half of those went for Mr Kerry. He was not the best speaker (that honour goes to Mr Edwards). He has not raised the most money (Mr Dean has).

He has no single virtue, but a combination: a distinguished record in Vietnam, experience in the Senate and support among all the disparate groups that make up the Democratic coalition. Mr Kerry won the moderate, blue-collar areas of New Hampshire's largest city, Manchester (the beer vote). He got a majority of more educated, liberal voters in the state capital, Concord (the wine vote). He won the corner of the state that serves as the northern dormitory for Boston. He got support from firefighters, car workers and even service workers, whose national union had endorsed Mr Dean. The League of Conservation Voters backed him. In other words, it was a clean sweep of unions, suburban voters, college graduates and environmentalists—the usual Democratic suspects. Self-described “moderates” and “liberals” went for him in equal numbers.

The question now is what kind of race develops between Mr Kerry and the field. In the middle of the New Hampshire campaign, with everyone drawing those capacity crowds, conventional wisdom said there would be a cloud of four or five competitive candidates. The results suggest otherwise. Not only was Mr Kerry's margin of victory unexpectedly large, but the gap between the top two and the rest was even larger.

It is hard to see Senator Lieberman as a factor now. General Clark's candidacy was predicated on contesting the nomination with Mr Dean. His rationale for competing against a war hero is dubious. Senator Edwards can discern a silver lining. The majority of those who voted for him made up their minds in the last three days, suggesting a late swing in his favour, and three-quarters of voters said they had a favourable image of him—better than anyone else. But he has to win more than his native state of South Carolina next week to support his claim to be the only candidate electable in every region of America.

That is also true of Mr Dean. He is obviously the strongest candidate among the rest. He built a solid base of support in New Hampshire, which backed him early and stuck with him despite Iowa. But if he is to do more than wound Mr Kerry, he needs to win something.

All that suggests the nomination is becoming a two- or three-horse race: Mr Kerry, Mr Dean, probably Mr Edwards. Such an outcome looks satisfactory for Mr Kerry. Throughout Mr Dean's surge last year, his campaign sought to present him as the stop-Dean figure and it has worked.

Mr Kerry emerges from New Hampshire and Iowa as the favourite to win the nomination, though perhaps only after an unpredictable struggle. The outstanding question then would be whether such a contest toughens and improves Mr Kerry (as Mr McCain's challenge sharpened Mr Bush in 2000). Or whether it weakens him, by raising doubts about his record, as happened in 1976, when Ronald Reagan fought Gerald Ford all the way to the nominating convention.

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The Missouri primary

The biggest prize so far

Jan 29th 2004 | ST LOUIS
From The Economist print edition

A wide-open race now that Dick Gephardt has retired

AP

Al's coming

SUPPOSE they had a primary and no candidates showed up? The unexpected withdrawal of Dick Gephardt from the presidential race after Iowa has left his home state's primary on February 3rd up for grabs. Not only will Missouri be the biggest prize of the contest so far, with 74 pledged delegates to the convention at stake, but it is the best test so far of the national appeal of any of the Democratic candidates.

Measured by the ratio of whites to blacks, the ratio of city to rural folk and past election returns, Missouri is a microcosm of the nation that surrounds it. It has long been a classic swing state: in 2000, George Bush carried it by just three percentage points. The Missouri campaign also marks the end of the retail politics of Iowa and New Hampshire. Voters will choose between faces they have probably seen only on television, as most people will in November.

Until Mr Gephardt bowed out, the main focus of the political circus after New Hampshire was supposed to be South Carolina, the first southern primary, or Arizona, the first big western one. Howard Dean and Wesley Clark both made some efforts to build up a network of grass-roots volunteers in Missouri, partially through the internet. But most of the other candidates in effect conceded Missouri to Mr Gephardt, the state's best-known Democrat.

Now they are struggling to upgrade their efforts, with predictably chaotic results. Would-be volunteers for John Kerry have been snubbed by a campaign that refuses to return telephone calls or e-mails. One John Edwards supporter complains that she cannot find anyone involved in his campaign. As *The Economist* went to press, the first television ads had only just appeared in St Louis or Kansas City—two cities so full of Democrats that there is little need to campaign elsewhere.

Both Mr Kerry and Mr Edwards came to Missouri the day after the New Hampshire primary. While Messrs Dean and Clark are trying to expand their grass-roots efforts, the Kerry and Edwards campaigns seem to be devoting most of their time to luring over Mr Gephardt's local lieutenants. Mr Gephardt himself is staying neutral, but Mr Kerry has the support of Jean Carnahan, a former senator, Thomas Eagleton, a former vice-presidential candidate, and Francis Slay, the mayor of St Louis. Mr Edwards has just picked up Congressman Ike Skelton.

A wild card in the race is Al Sharpton. Although Mr Sharpton's appeal to black voters in South Carolina is widely reported, Missouri could be a richer opportunity for him. He has led many well publicised demonstrations in St Louis for minority contractors and other black causes. He may need watching.

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About sponsorship

The Oklahoma primary

John Edwards's cunning ploy

Jan 29th 2004 | MCALESTER, OKLAHOMA
From The Economist print edition

Retail politics in Little Dixie

A YEAR ago, Senator John Edwards learned a secret in McAlester. He discovered that the town and its region were the habitat of the “yellow-dog” Democrats (those who would rather vote for an old yellow dog than vote Republican), who have a huge impact in state politics. In this distinctively southern part of Oklahoma, in hamlets settled by southern coal-miners and outlaws in the 19th century, politics is as popular a pastime as hunting and fishing. Populist moderates here in Little Dixie, as the locals call it, like to shake hands and have a cup of coffee with candidates.

Mr Edwards has been happy to oblige. He has made more than a dozen trips to Oklahoma, mostly to rural parts. And he goes down very well. His “Two Americas” speech has resonance in a state that has suffered economic hardship during the past few years. And his southern drawl does him no harm, either.

Oklahoma moved its primary up this year to play politics, and it expects the candidates to play the game too. Mr Edwards certainly has. Wesley Clark, Mr Edwards's most serious rival from next-door Arkansas, still needs to learn the rules. Mr Clark is still at the top of local polls for the vote on February 3rd, but his campaign leaves Oklahoma's powerful Democrats wanting more. He even earned the symbolic endorsement of the *Native American Times* newspaper (Oklahoma has the largest number of Native Americans outside California), but has done nothing to spur that group to vote for him.

Mr Clark assumed that Oklahoma, with its crowds of ex-servicemen and its flag-waving patriotism, would safely be his. The telephones at his headquarters were not turned on until Christmas. He has visited the state only three times since he declared his candidacy. Three other trips have been cancelled, and he has bypassed McAlester, where an ammunition depot as big as Washington, DC, makes almost all America's non-nuclear bombs. Mr Clark's wife, Gertrude, covered for him by visiting nearby Ada. But as one Democratic leader said, “We want to meet him first, not her.” Respect matters. As does attention; Harry Truman spent 33 hours in Oklahoma in 1948, and people are still talking about it.

In a state this small, party politics calls the tune, and Mr Clark has not connected well with party leaders. Brad Henry, the Democratic governor, has yet to endorse anyone, but may come out before the primary for Mr Edwards, whom many of his people—and nearly 30 Democrats in the state legislature—are backing already. Besides, Vince Orza, Mr Henry's arch-rival in the primary for the governor's race in 2002, has opted for Mr Clark.

Both Mr Edwards and Mr Clark will certainly feel John Kerry's winning heat. Mr Kerry's Oklahoma poll numbers have more than doubled since Iowa. His war record enables him to appeal as strongly to ex-servicemen as Mr Clark does, which matters. War is not a dirty word in Oklahoma. The state has several military bases, and displays such a yen for fighting that during the Vietnam war, when Oklahomans had no draft to face, they volunteered in record numbers.

Before he abandoned the field, Dick Gephardt had secured most of the state's delegates. Now they are up for grabs. Mr Dean flickers in the distance, but is far behind the two favourite southern sons. Settlers considered Oklahoma the frontline for the Great Plains and the end of the Eastern Forest. For Democrats, it may be the start of the real race to November.

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The electoral week

Primary colour

Jan 29th 2004
From The Economist print edition

Girl power

BabesAgainstBush.com has produced a calendar of “13 beautiful young women, exercising their first amendment right to thumb their nose at our bozo president”. In response BabesforBush.com's calendar features “average Americans who support the president and are proud of his accomplishments”.

US News & World Report, *February 2nd*

With friends like these

“I wanted to say to Governor Dean, don't be hard on yourself about hooting and hollering. If I had spent the money you did and got 18%, I'd still be in Iowa hooting and hollering.”

Al Sharpton, January 22nd

The common touch

“You get paid a lot of money; you ought to be buying some food here. It's part of how the economy grows. You've got plenty of money in your pocket, and when you spend it, it drives the economy forward. So what would you like to eat?”

George Bush at the Nuthin' Fancy Café in New Mexico, giving David Gregory of NBC an economics lesson

Next stop, Mount Rushmore

“You want the Old Man of the Mountain pose? I'm all that's left standing.”

John Kerry in Portsmouth, pointing out his likeness to a famous New Hampshire rock formation which collapsed last year. ABC News, January 26th

Early-stage Monica

“He walked right up to me and gave me a hug and I almost fainted. His skin was so soft. He smelled so good. His cologne lingers on my jacket. I am never washing it.”

Barbara Pratte of Nashua on John Edwards,Atlanta Journal-Constitution, January 27th

Luvvie wisdom (contd)

“I just want to say that I don't think the two biggest problems in America are that too many people want to commit their lives to one another till death do us part, and steroids and sports.”

Meryl Streep at the Golden Globes on the state-of-the-union address, January 25th

Candidates' wives*

Name	Previous job	Campaigning	Feminist	Public displays of affection	Woman of the people
Laura Bush	Librarian	★★★★	★	★★★	★★★
Gertrude Clark	Military wife	★★★★★	★	★★★	★★★
Judith Steinberg Dean	Doctor	★	★★★★★	★	★★★★
Elizabeth Anania Edwards	Lawyer	★★★★	★★★	★★	★★★
Teresa Heinz Kerry	Ketchup philanthropist	★★★★	★★	★★	
Hadassah Lieberman	Charity worker	★★★★★	★★★	★★	★★★
Kathy Jordan Sharpton	James Brown backing singer		★		★★★★★

*Dennis Kucinich, twice divorced: "As a bachelor I get the chance to fantasise about my first lady"

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David Kay and Iraq's WMD

Whodunnit?

Jan 29th 2004
From The Economist print edition

It is still not clear who fooled whom over Saddam Hussein's still missing weapons of mass destruction

WHEN many were sceptical, David Kay was once confident that some dodgy trailers found in Iraq were mobile biological facilities. He was likewise sure that some aluminium tubes were evidence of Saddam Hussein's pursuit of nuclear weapons. That such a hawkish analyst should now say—as Mr Kay has done since resigning last week as America's chief weapons-hunter in Iraq—that there is probably not much more to find, is more than a little awkward for George Bush. “We were all wrong”, Mr Kay told senators, “and that is most disturbing.” He has changed his mind about the trailers and the tubes.

The first findings that Mr Kay reported to Congress last October, though slim, did give some succour to advocates of the war. Mr Kay's team had found some undeclared laboratories that might have been suitable for WMD research, evidence of work on illegal missiles, and other violations of UN resolutions. But the post-war inspectors had turned up minimal evidence of chemical and nuclear activity, and no actual weapons. Mr Kay now believes that Iraq's WMD stockpiles were destroyed during the 1990s. The chemical-protection suits discovered by advancing American soldiers, Mr Kay told the *New York Times*, were intended for protection against possible chemical attack by Israel, rather than one launched by Iraq itself.

If the ex-inspector is right, two questions arise. Why on earth did Mr Hussein act as guiltily as he did—and why did Britain and America think he was such a menace? Mr Kay has thoughts on both issues. He speculated that Mr Hussein may have been deceived by his own scientists into financing, and believing in, non-existent weapons programmes, as Iraq descended into what he described as a “vortex of corruption” in the late 1990s. Some in the intelligence world doubt that theory; the idea that ingratiating scientists promised Mr Hussein more than they were able to deliver may be more plausible.

Mr Kay has also mentioned the possibility that Mr Hussein was the architect of the deceit, rather than its victim. To maintain international prestige, to deter invasion, or for some other half-baked reason, he may have wanted the world to believe he retained a capacity to inflict massive destruction, while at the same time hoping that international sanctions against Iraq might be lifted if there were no tangible proof of his arsenal. The targets of his deception may have been his internal underlings and enemies, as well as international ones: Iraqi commanders, Mr Kay has reported, seemed to believe that other units were armed with “special” weapons to help them fend off the invaders, even though they themselves had none.

Distressingly for the spooks, Mr Kay's answer to the other question—about the Anglo-American case for war—is that the intelligence on which it relied was faulty. Like others, he thinks that after the UN inspectors left Iraq in 1998, the intelligence agencies were over-reliant on satellite images, intercepted communications, foreign spies, and Iraqi defectors and exiles. Without the UN inspectors' help, the resulting hypotheses could not be checked on the ground. (Other explanations include an over-compensation for having under-estimated Iraq's WMD progress before the Gulf war of 1991; hypersensitivity induced by September 11th; and a failure by the CIA to correct the worst imaginings of Mr Bush's administration.) A major overhaul of the intelligence system looks necessary.

There is little sign yet of either the CIA or MI6 (Britain's foreign-intelligence service) retracting their pre-war assessments. The Brits still think Iraq did indeed retain a capability to make chemical agents “just-in-time” (something Mr Kay now doubts), and that it had mobile biological facilities, leftover Scuds and active plans to import “yellowcake” uranium from Niger. MI6's yellowcake allegation derives from information shared by the intelligence services of two other countries, and not passed on to the Americans. Mr Kay reportedly said he found no evidence to substantiate that claim. But if, in the Kay

view, the spies got it largely wrong, the American and British air forces got it right, since bombing in 1998 destroyed much of Iraq's residual WMD infrastructure. The UN inspectors, he believes, also had a more disabling impact on Mr Hussein's schemes than their detractors have maintained.

Mr Kay has not alleged any “sexing-up” or bullying by politicians, a small mercy for Mr Bush. But his remarks, seized on by the president's Democratic rivals, leave the president in a tight spot. In October, Mr Kay had observed that “our understanding of Iraq's WMD programme was always bounded by large uncertainties and had to be heavily caveated”. Such caveats, most necessary in relation to Iraq's supposed nuclear programme, were largely dropped by Mr Bush and his aides in their pre-war statements. Some in his administration—though not the robustly unapologetic vice-president— now seem to be inserting them retrospectively, and Mr Bush himself is emphasising Mr Hussein's general badness. But the questions raised by Mr Kay's *volte-face* may only go away if an independent inquiry is set up to answer them.

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About sponsorship

The environment and energy

Gas warfare

Jan 29th 2004 | CHOTEAU, MONTANA
From The Economist print edition

The next big environment row could be in the Rocky Mountains

AEONS ago, the colliding plates of the earth buckled in the area now called Montana, sending great fins and towers of rock soaring into the air and trapping pockets of natural gas underneath. The Blackfeet Indians called the Rocky Mountain Front the “backbone of the world”. Environmentalists call it “the American Serengeti”, because of its pristine forests, elk, grizzly bears, wolves and bighorn sheep.

The wind-blasted Front may now be the site of the biggest energy battle since the fight over the Arctic National Wildlife Refuge, the ANWR, in Alaska. Both the Front and the ANWR were named in a list drawn up by the incoming Bush administration as places it wanted federal managers to open up for exploration. The Senate tossed out the Alaska project in 2003. Now greens are calling the Front “the ANWR of the lower 48” (the United States minus Alaska and Hawaii).

There may be 2.2 trillion cubic feet of natural gas under the range: not much compared with the ANWR, where there may be 40 times as much, but enough to supply American demand for two months. Most of this is off limits, lying beneath declared wilderness areas or Glacier National Park. But estimates of reserves in areas that could be opened to drilling exceed 200 billion cubic feet. Pro-drillers point north to the hugely profitable Pincher Creek gasfields in Alberta, in Canada, as an example of what may lie beneath Montana's Front country.

It will not be easy for the would-be drillers. In the 1980s, a coalition of green groups and the Blackfeet Indians fought off two oil firms which had begun exploring the Lewis and Clark National Forest (see map). In 1997, Gloria Flora, the then supervisor of the forest, imposed a ten-year moratorium on energy exploration in all of its 1.8m acres.

That still leaves more than 40,000 acres of federally owned lands on the Rocky Mountain Front which are managed by the Bureau of Land Management. The “Bureau of Livestock and Mining”, as the greens like to call it (though it also gets plenty of grief from ranchers and energy firms), is considering whether to allow three inactive gas wells to be brought back into service, and eight more exploratory wells to be drilled. Drilling could begin on the bureau's lands as early as 2005, a year before Ms Flora's moratorium comes up for review.

For greens, the problem is less the wells themselves than the things that come with them: roads, equipment plants, “sweetening plants” (used to remove unwanted “sour gas”), and so on. The energy firms say that modern technology means the mess would be minimal, and the land can be reclaimed after the gas runs out. They have the support of Senator Conrad Burns and of the state's lone House member, Denny Rehberg, another Republican.

Yet the project still seems less popular with the locals than drilling in the ANWR was in Alaska. Montana's Democratic senator, Max Baucus, opposes it. The people of sparsely populated Teton County, where the first drilling is planned, are “evenly split”, according to one county commissioner, Mary Sexton, who says that she “leans toward opposing”. Some of the fiercest opponents of drilling on the Front are local ranchers and businessmen who deal with tourists. Hunters and gun-makers—hardly natural Democrats—are also opposed and they claim to have the president's ear.

The split among the locals is interesting. George Bush has sought to hand control of federal land down to states and counties, which often helps the companies that want to dig into it; on the Front, local citizens may now want more federal protection, not less. Twenty years ago, greens were blamed for destroying logging and mining jobs: “It may be beautiful, but you can't eat the scenery!” Now the scenery has become a little more edible. The austere landscape of the Front may be the state's most sought-after commodity.

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Lexington

The new target

Jan 29th 2004
From The Economist print edition

How would the White House attack John Forbes Kerry?

IT HAS been a miserable fortnight for the Bush-Cheney re-election campaign. Before the Iowa caucuses, it looked as if the Democrats were bent on self-destruction. Howling Howard Dean was streets ahead of the pack. And the president's main strategist, Karl Rove, was salivating at the prospect of facing an airy-fairy north-eastern liberal. “Please nominate this man”, pleaded the cover of the conservative *National Review*.

The new front-runner is an altogether more substantial figure. John Kerry not only looks the part of a president, with his lanky frame and Mount Rushmore profile. He acts like one as well—and has been preparing himself for the job since his teens, when he was much taken with the fact that he had the same initials as JFK. It is hard to imagine Mr Kerry saying that he isn't sure whether Osama bin Laden is guilty—or screaming like a banshee in front of a crowd of college kids.

So how will the Republican high command deal with this extraordinary shake-up? All the signs are that they will treat the new front-runner in exactly the same way as the old one. Doesn't Mr Kerry hail from liberal Massachusetts? Didn't he once serve as lieutenant-governor to the pathetically liberal Michael Dukakis? Doesn't he love taxes and hate the death penalty? Ed Gillespie, the chairman of the Republican National Committee, has pointed out that Mr Kerry has a 93% approval rating from Americans for Democratic Action, the leading liberal rating organisation: even higher than Ted Kennedy, who gets a mere 88%. “Who would have guessed it?” crows Mr Gillespie. “Ted Kennedy is the conservative senator from Massachusetts!”

But is this a credible strategy, or is it out of date? In America's political lexicon the term “liberal” is a synonym for “wimp”; sooner or later, that famous picture of Mr Dukakis looking foolish in a tank is mentioned. But Mr Kerry is no wimp. A decorated Vietnam war veteran who risked his life to save his fellow soldiers, he is addicted to macho sports such as ice-hockey, wind-surfing and killing many forms of wildlife. He rides Harley Davidsons and has a passion for red meat.

Indeed, Mr Kerry stands a chance not just of deflecting the wimp charge but of hurling it back at his detractors. Both George Bush and Dick Cheney somehow managed to avoid serving in Vietnam. Paul Wolfowitz spent the war storming the groves of academia rather than the canals of the Mekong delta. Indeed, it is hard to think of any neo-conservative who has put on his country's uniform other than in his

dreams. Mr Kerry can legitimately argue that, as someone who has been at the sharp end of battle, he would have thought more carefully than these “chicken hawks” before launching a pre-emptive war. He gets some of his loudest applause on the stump when he says that he knows “something about aircraft carriers for real”.

My multi-millionaire beats your multi-millionaire

This is a powerful firewall, to be sure. But being a war hero does not prevent you being depicted as an elitist lefty, as George McGovern discovered in 1972. Mr Kerry's problem is that he offers Mr Rove's minions three other avenues of attack.

The first is the sheer length of his career in politics, not least 19 years in the Senate. The Nixon White House collected “opposition” material on Mr Kerry back in 1971, when he was a leader of the anti-war movement. It is no accident that no sitting senator has won the White House since JFK. Senators inevitably leave incriminating paper trails—and Mr Kerry is no exception.

Mr Rove has an embarrassment of riches when it comes to tagging the senator as a tax-and-spend paleoliberal who believes in coddling drug addicts, abolishing the death penalty and protecting partial-birth abortion. Mr Kerry has offended against Americans' God-given right to cheap petrol by advocating a 50-cent increase on the tax on it; he has also called for steep cuts in funding for the FBI and restrictions on the CIA.

The fact that this is Rovan demagogy doesn't make it any less damaging. Besides, the second avenue of attack is that Mr Kerry has been a little too political himself, seldom showing the same mettle in internal Democratic politics that he did in the jungles of Vietnam. Whenever he has summoned up the courage to challenge the party's leftish interest groups—by questioning affirmative action, for example, or taking on the teachers' unions—he has always retreated in the end. His current stump speech panders to his party's worst instincts on everything from drug prices to American business moving jobs abroad. For all his faults, Bill Clinton shifted the Democratic Party's centre of gravity on free trade, and law and order. So far Mr Kerry has left no footprints in the Democratic snow.

The third avenue of attack is that Mr Kerry is a blue-blooded elitist who doesn't understand ordinary people. He is the richest man in a Senate full of rich people: a Boston Brahmin (his middle name is Forbes) who married an heiress and went to a Swiss boarding school. Of course, his fellow Skull and Bones man, Mr Bush, can hardly claim that he was born on the wrong side of the tracks. But many Americans get much more riled about elitist liberals than they do about elitist Republicans—particularly if those liberals embrace the teachers' unions while sending their own children to private schools, or go soft on crime while making sure that they live in the safest bits of town. Add to this Mr Kerry's haughty style, and you can see the makings of a populist caricature.

This is not to say that demagoguing Mr Kerry will be easy. He may be no JFK, but he is a substantial candidate—and would be more powerful still if he can entice John Edwards to run as his vice-president, adding southern charm to his New England gravitas. For Mr Rove, beating Mr Dean would have been like shooting fish in a barrel. Beating John Kerry will be a much more dangerous and blood-spattering sport.

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Mexico's immigration problem

The kamikazes of poverty

Jan 29th 2004 | TAPACHULA, MEXICO
From The Economist print edition

AP

Mexico's southern border with Guatemala is supposed to be a new frontier in the war against terror. But it is economic migration that causes the problems

AT THE Jesús el Buen Pastor refuge in the centre of Tapachula, a city on Mexico's border with Guatemala, the door is opened by Héctor, a Honduran in a wheelchair. He lost both his legs trying to jump a freight train bound for central Mexico, the first stage of what was meant to be the long journey north to the beckoning opportunities of the United States. Like Héctor, many others fall on to the track in the scramble to get any sort of toehold on the daily train. It is the "end of their American dream", says Olga Sánchez Martínez, the director of the refuge, crowded with 25 amputees. Those who survive face a tough (but free) two-week journey north.

Nobody has much idea how many people end up like Héctor, just as no one knows, even vaguely, how many people flow over Mexico's 1,000km (625-mile) border with Guatemala. Compared with the far longer border with the United States, Mexico's southern flank has long been ignored, notes Hugo Angeles Cruz, an immigration researcher at the College of the Southern Frontier in Tapachula.

That is now changing. The area is seen by American and Mexican officials as a new frontier in the war against terror. Fresh resources have gone into policing it. That has drawn attention to the underlying problems of a very porous frontier, and the policies (or lack of them) that have created a rising human

toll in an otherwise obscure backwater.

Last year Mexico deported 147,000 illegal immigrants in all, some 20% more than in 2002. Over 90% came from just three Central American countries (Honduras, Guatemala and Nicaragua), almost all of whom are likely to have entered through the southern border. In Tapachula, immigration officials concede that the higher figure represents not their success in stemming the flow, but evidence that more are making the journey.

Certainly, the would-be migrants on the Guatemalan side of the frontier do not seem to be deterred by any bureaucratic obstacles. Many gather in the seedy, menacing border village of Tecum Uman, whence they cross the Suchiate river to Mexico. The river bank is a medieval scene of hawkers, migrants, smugglers and even the occasional policeman.

Many of the migrants already have families or friends and promised jobs in the United States, where more than 500,000 Central Americans are thought to live illegally (and another 900,000 legally). A Honduran says he is going to work on a building site at $13 an hour (the minimum wage at home is $3 a day). “American workers are lazy and smoke dope...we work,” he says. Roberto, from El Salvador, makes the train ride north sound like merely a long commute. He is preparing for his ninth journey to join his girlfriend in the United States. He says the grain trucks afford the best place to hide. A train of 70 wagons can have as many as 600 illegals in it, or hanging off it, he adds.

They would benefit from George Bush's proposal unveiled earlier this month to grant temporary work permits. In the past, as the flow of migrants has risen, so have the dangers. Accidents apart, the main threat comes from ruthless local gangs, operating in and around Tapachula. Many of their members are violent youths from El Salvador and Honduras who have been deported from the United States. They have few roots in their own countries. Last month one gang killed three migrants and wounded half a dozen in an attack on a train; in all, the gangs killed 70 migrants last year. Prostitution and rape are now serious problems as well.

The migrants are the “kamikazes of poverty”, says Flor María Rigoni, a local priest who tries to help them. He says that the deployment of more Mexican police, at the urging of the United States, since the terrorist attacks of September 11th 2001 has made little difference. The new forces specialise in searching for drug smuggling and terrorists. They know little about migrants and their rights. Abuses by the police are rising, says Mr Rigoni. And terrorists seem unlikely to contemplate wading across the Suchiate, stinking and crowded at this time of year.

The underlying problem is common to Mexico's northern border too. The North American Free Trade Agreement, and similar trade deals between Mexico and Central America, have vastly increased the flow of goods and services between Mexico and its neighbours. If Congress agrees, the United States will this year ratify a similar accord with Central America. Only labour is left out.

Mexico's president, Vicente Fox, has long badgered Mr Bush over immigration reform. But as some Mexican officials now acknowledge, their own country also lacks a coherent immigration policy. Just like the Americans, Mexico's government treats the human traffic across its border as a security problem. It is, but largely because of the crime that the incomers attract and are victims of. There is also much official sympathy for the plight of the Central American migrants, and a common understanding of the poverty that they are trying to escape.

The result is somewhat schizophrenic. While police try to send the migrants back, officials from other branches of Mexico's government patrol the border to help advise the migrants of their human rights as they pass through the country. They even hand out the odd jumper to keep them warm. Immigration officials know that the vast majority of the migrants are only in transit though Mexico to the United States, like many of their own compatriots.

That means that in the end the solution to the chaotic carnage in Tapachula lies beyond Mexico's control. It is yet another argument for Mr Bush's proposed immigration reform. Meanwhile, Mexico would do well to try to think more creatively about how to provide rights of transit while attempting to regulate the flow through its southern back door.

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Brazil's government

Now bring on the doers

Jan 29th 2004 | SÃO PAULO
From The Economist print edition

A deft reshuffle eases some doubts

Reuters

Patrus, a social politician

"TO GOVERN means to move from 'I think' to 'I do'." So saying, Brazil's president, Luiz Inácio Lula da Silva, shuffled his cabinet for the first time in his year-long presidency. One aim is to inject competence into ministries that lack it—especially those dealing with social policy, where a centre-left government should be at its strongest. Another is to widen the government's base, by bringing in the Brazilian Democracy Movement Party (PMDB), the second-largest in Congress. That should also enable Lula's own Workers' Party (PT) to recruit the PMDB as an ally in October's local elections.

Social policy is being turned over to two doers, both successful former big-city mayors. Patrus Ananias, who is close to activists in the Catholic church, takes over a new Ministry of Social Development and Hunger Alleviation. This subsumes Zero Hunger, Lula's ill-conceived food-stamps programme, a clutch of income-transfer schemes and another PT creation, the social-assistance ministry. Their unification should bring more coherence to anti-poverty programmes.

The new education minister, Tarso Genro, was under-employed as head of a government talking shop for business, labour and NGOs. He is expected to reform the public universities while making fewer public complaints than his predecessor about scarce resources. Lula also got rid of a controversial science minister, who had entertained nuclear ambitions and was disliked by scientists.

Mr da Silva's top aide, José Dirceu, will now concentrate mainly on wringing better performance from all his ministers. His former responsibility for pushing laws through Congress goes to Aldo Rebelo, a Communist.

On paper, the alliance with the PMDB should make Mr Rebelo's job easier. In exchange for two ministries (pensions and communications), plus, possibly, top jobs in some state companies, the PMDB brings 15% of the seats in the lower house of Congress and 27% in the Senate. But it is notoriously fractious. Some of its barons are thought to be dissatisfied with the two second-string ministries Lula offered. "The party enters [government] with its left foot, not its right foot," says Gaudêncio Torquato, a political analyst. Perhaps so. But for now, that will still keep Lula marching forward in Congress.

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Argentina and the IMF

An amber light

Jan 29th 2004
From The Economist print edition

A skirmish over priorities

AFTER its debt default and economic collapse of 2001, Argentina attracted much sympathy from the outside world. Not, though, from the IMF, whose staff reversed their earlier leniency towards the country. Last year, however, the governments of the G7 rich countries did not wish to be seen to hit the place when it was down, so they overruled the IMF's staff and brokered a new accord. This rolled over Argentina's debts to the Fund for three years, on fairly easy terms. Now some are having second thoughts.

On January 28th, the IMF board, in its first review of that agreement, gave Argentina what in effect is an amber light. The United States threw its weight behind the accord. But in a rare show of dissent, eight board members—including Britain, Italy, Japan—are said to have abstained.

At issue is the harsh line taken by the government of President Néstor Kirchner towards privatised utilities and private creditors. The tariffs of most utilities have been frozen since the devaluation of January 2002, though prices have risen by 43% since then. The government has been equally rough with the holders of $80 billion of the bonds on which it defaulted in 2001. It has offered to restructure these, but on terms which creditors say write off more than 90% of their value. Mr Kirchner insists that those terms are “immovable”.

Horst Köhler, the IMF's boss, said this week that restructuring the debt was “the most critical task for the coming period”. But to strike a deal Argentina would have to increase its primary fiscal surplus (ie, before debt payments) from its current target of 3% of GDP. The government argues that its first priority must be to revive the economy and address poverty.

Recovery is indeed under way. GDP grew by perhaps 8% in 2003 and this year's growth may be almost as strong. The stockmarket is booming. But all this makes it harder for the government to remain so unbending towards its creditors. And sustaining the growth will require substantial new investment this year. This is not likely to arrive while the country remains at war with the financial world.

Hitherto, Mr Kirchner has got his way with the Fund by threatening to default on the $16 billion Argentina owes it. So far that tactic has worked; and helped to make the president extraordinarily popular at home. The message this week is that it might not work much longer.

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Colombia's paramilitaries

Disarming, bit by bit

Jan 29th 2004 | BOGOTÁ
From The Economist print edition

Outsiders step into a difficult argument

PRESIDENT Álvaro Uribe might claim that he is having rather more success in disarming the right-wing vigilantes of the United Self-Defence Forces of Colombia (AUC) than his predecessor managed in three years of talks with their opponents, the left-wing FARC guerrillas. But his critics say the peace talks begun last year with the AUC involve a hasty de facto pardon for gangs of mass-murderers and drug traffickers. In any event, the talks got a big boost this week, when the Organisation of American States endorsed them.

The OAS agreed to set up a mission in Colombia, headed by Sergio Caramagna, who helped to supervise the disarmament of Nicaragua's *contra* rebels in the early 1990s. The mission would monitor a much-breached "ceasefire", and oversee the disarmament and return to civilian life of some 10,000 paramilitary troops. What it will not do is meddle in the issue of how the vigilantes should be punished.

César Gaviria, the OAS's secretary-general, is a former Colombian president who is due to retire from the job in September. Mr Gaviria is said to have pushed through this Colombian entanglement against fierce opposition from several member countries. The government accused the United Nations special adviser on Colombia, James LeMoyne, of leaking these reports, though it later retracted the charge.

Many outsiders distrust Mr Uribe's intentions towards the paramilitaries. The government has proposed "alternative" punishment, involving fines rather than jail, for their leaders. It struck this deal with Carlos Castaño, the AUC's political leader. But America wants to extradite him for drugs crimes, and human-rights groups accuse him of massacring civilians. The government's plan is now being debated in Colombia's Congress. The AUC has supporters there, but the terms of the deal are nonetheless expected to be toughened.

Some foreign diplomats argue that since the AUC has committed war crimes, the punishment of its leaders is not a purely Colombian matter. Certainly, the amateurish peace process would benefit from outside help. Some 850 vigilantes were demobilised in Medellín in November. After three weeks in a rehabilitation programme, they were back on the streets. Infighting between AUC factions has prevented further demobilisation.

Officials argue that the talks might at least remove one of Colombia's three illegal armies from the battlefield. Many of those who criticise peace talks with the AUC are, inconsistently, also hostile to Mr Uribe's military build-up. Some also urge him to carry out a "prisoner swap" with the FARC, in which kidnapped hostages would be exchanged for jailed guerrilla leaders. To the government, that is merely appeasing the kidnappers.

Ideally, the government should offer the same terms to the right-wing paramilitaries, and to the FARC and the ELN, the second guerrilla group to whom officials say they may soon talk. But Mr Gaviria says that peace in Colombia arrives in pieces. Four armed groups gave up in the 1990s. In that spirit, in a new report by Conciliation Resources, a London-based organisation, a group of mainly leftish authors argues for local peace initiatives and more civic participation in peace talks. Mr Uribe might reply that unlike the AUC, the FARC shows no sign of wanting peace. A democratic government has a duty not to yield to those who use violence to extract political advantage. Hard talk lies ahead.

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Peru

Just add spice

Jan 29th 2004 | LIMA
From The Economist print edition

A gastronomic revolution

TO OUTSIDERS, Latin American food may conjure up not much more than the smell of Mexican tacos. But Peru can lay claim to one of the world's dozen or so great cuisines. Beyond its trademark dish of *cebiche* (raw fish marinaded in lime juice), Peruvian food is little known abroad. That may be about to change. Peru is in the throes of a “spontaneous revolution” in gastronomy, as Raúl Vargas, a journalist and foodie puts it.

Two things give Peruvian food its distinctive edge. The first is the country's huge biodiversity, with dozens of microclimates. Potatoes, squash, peanuts, hot peppers, beans and maize were all grown before the Spaniards arrived. Despite overfishing, the cold Humboldt current that hugs Peru's desert coast is still rich in fish and shellfish. Though grazing for large animals is poor, poultry and game are abundant. “It's a luxury for any chef: I go to the market and can choose between 60 different varieties of fresh fruit and vegetables and 70 different species of seafood,” says Gastón Acurio, a Lima chef.

Second, Peruvian cooking has long reflected cultural fusion. According to Isabel Álvarez, a sociologist turned restaurateur, its basics were established by the 18th century, when Lima was the moneyed capital of a vast Spanish viceroyalty. Slaves and migrants added African, east Asian and Italian touches. Nobuyuki Matsuhisa, who worked for several years as a cook in a Lima restaurant in the 1970s, has exported his own brand of Peruvian-Japanese food through his Nobu chain.

In such a poor country, food has traditionally been robust, spicy but lacking in sophistication. That is starting to change. A decade ago, Lima had no cookery schools. Today, there are 14, including a joint-venture with France's Cordon Bleu. Mr Acurio, the son of a politician, trained in Paris while pretending to study law; now, cooking has become an acceptable profession for the children of the elite.

A dozen or so upmarket restaurants have opened in Lima in the past few years. Quality in the hundreds of humbler *cebicherias* (fish restaurants) is improving too. The media have taken an interest. Mr Vargas, the director of Radio Programas, a leading radio station, launched a weekly food programme in 2001, which awards an annual prize for the best *cebiche*.

Will Lima become a new Mecca for gastronomes? Mr Acurio reckons that while it cannot compete at the top end, “it is one of the best places in the world to eat for $30-35 per head including wine”. But whetting the appetite of potential tourists may depend on raising the quality of Peruvian restaurants abroad, many of which are poor. Mr Acurio has led the way: his Astrid y Gastón has a branch in Santiago (recently voted Chile's best restaurant by local food critics) and is opening in Bogotá. A handful of new Peruvian restaurants in the United States are hiring some of those newly-trained chefs from Lima.

The government is encouraging locals to invest in restaurants abroad, and promoting festivals of Peruvian food, says Manuel Rodríguez, the foreign minister. In a country recovering from terrorism and misgovernment, cooking has become a source of national pride.

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Malaysia

Not yet out of Mahathir's shadow

Jan 29th 2004 | KUALA LUMPUR
From The Economist print edition

AFP

Abdullah Badawi has done some good things, but the new prime minister has fought shy of the most important ones

Get article background

MALAYSIANS are not used to wondering where their prime minister stands. Mahathir Mohamad, who quit the job last October after 22 years in office, never left them in any doubt, whether he was extolling his country's economic success, or berating the foreign financiers who, he claimed, were conspiring to undermine it.

His successor, Abdullah Ahmad Badawi, by contrast, is a much less outspoken and more inscrutable figure. Malaysians are still trying to work out whether he is a cautious reformer—or merely a less voluble version of Dr Mahathir.

Mr Badawi does not pretend to be a revolutionary. He served as Dr Mahathir's deputy prime minister for almost five years and in other cabinet positions before that. What is more, Dr Mahathir's allies still dominate the ruling party, the United Malays National Organisation (UMNO), and the cabinet. No wonder, then, that Mr Badawi has proposed only gentle revisions to his predecessor's agenda: more openness and accountability in government, less corruption, fewer expensive prestige projects, more rural development and so on.

That much sounds positive enough. But Mr Badawi is only implementing such principles half-heartedly, and sometimes contradicts them. He has declared that the government should award contracts by open tender, instead of doling them out in secret to favoured businessmen—but has not yet devised an official policy to that effect. He has broken with UMNO's tradition of shameless pork-barrel politics by appointing a technocrat as his deputy in the finance ministry, but has chosen Najib Tun Razak, an UMNO leader of the old school, as deputy prime minister.

Before he retired, Dr Mahathir had made clear that he wanted Mr Najib to get the job, which puts him next in the line of succession. Mr Badawi said he wanted to make up his own mind. Now, by choosing Mr Najib, Mr Badawi looks as though he is meekly following the doctor's orders.

To his credit, he has announced a commission to review the workings of the police force, widely viewed as corrupt and incompetent. But there is no telling yet how bold the commission will be, nor how readily the government will accept its recommendations. He has bravely taken decisions to delay a $3.8 billion rail scheme and to cancel a contract relating to a huge, redundant dam. Yet these have been offset by continued government largesse for the biggest boondoggle of them all: Proton, the state-owned carmaker.

Meanwhile, some of the worst abuses of the Mahathir era have continued unabated. The police still deny opposition parties permits to hold public rallies and break up any gatherings held in defiance of the ban. Last week, they barged into an opposition party office and forcibly dispersed the members meeting there. A number of opposition activists are detained without trial. Those who do find themselves in court, such as Anwar Ibrahim, a former finance minister who fell from grace after he challenged Dr Mahathir, cannot count on a fair hearing.

In mid-January, after six months' reflection, an appeals court denied Mr Anwar bail. The same court also refused to review his conviction for sodomy (a crime in Malaysia), despite Mr Anwar's unchallenged alibi and even though his accuser is constantly changing his testimony. Mr Anwar is now waiting for the Federal Court, Malaysia's highest, to hear a further appeal in that case, to consider a new application for bail, and to review an earlier, equally suspect conviction for corruption.

But the court sets its own schedule and might not be ready to consider any of these petitions for years. The opposition cites such disappointments as proof that Mr Badawi is no different from Dr Mahathir. “Under Abdullah Badawi”, says Muhamad Ezam Muhamad Nur of Mr Anwar's Keadilan party, “we are not moving towards democracy, we are moving towards a police state.”

Mr Badawi's supporters, on the other hand, put his mixed performance so far down to lack of sufficient time and a proper mandate. He is using his first 100 days in office, they explain, to lay out his philosophy and air some policy ideas. These, they say, will serve as a platform in the election he is about to call, after which he will really begin to make his mark.

Both Mr Badawi's admirers and his detractors have a point. Dr Mahathir selected him as deputy leader of UMNO for his loyalty rather than for his flair. He might not have held on to the post, and thus inherited the leadership, had Dr Mahathir not forbidden other party members from challenging him for it. So it can be argued that he really does need to prove himself at the polls before he can start to shake things up. In the meantime, he needs the support of UMNO heavyweights such as Mr Najib.

In the long run, both Mr Badawi and his team of bright young advisers do seem genuinely determined to clean up public life in Malaysia—hence the commission on the police, the new policy on public tenders and the cancellation of wasteful contracts. Unfortunately, though, Mr Badawi shows no interest in correcting Dr Mahathir's lamentable record on civil liberties. His advisers do not consider it a priority—indeed, one admits that they do not even have any potential reforms in mind. Mr Badawi, after all, is not likely to win big at the coming elections by giving freer rein to his political opponents.

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Bird flu

Get well soon

Jan 29th 2004 | BANGKOK
From The Economist print edition

Thailand's damage control

EPA

Thaksin bites the nugget

A BIT under the weather, but unlikely to suffer serious long-term effects. That is the consensus verdict on both the Thai economy and Thaksin Shinawatra's political fortunes a week after his government, following three months of denials and accusations of cover-up, finally admitted the existence of bird flu in both poultry and humans. The disease is now spreading fast across South-East Asia, and cases have also been reported in Pakistan. So far, tens of millions of birds have died or been culled across the region, and the flu has killed at least ten people. Although direct transmission between humans does not seem to be happening (see article), the outbreak is feeding fears of health and economic disaster for the region.

The Indochina peninsula and Indonesia appear the worst hit so far. China, Japan, Taiwan and South Korea are less affected, while cases reported in Pakistan appear to be caused by a less lethal strain of flu. The disease is catastrophic for the region's poultry industry, and nowhere more than in Thailand, its largest poultry exporter, where foreign sales bring in $1.2 billion a year. One-third of the country's 76 provinces have infected fowl, and well over 10m birds have died or been culled. Exports are crumbling following import bans by Thailand's two largest markets, Japan and the European Union, and analysts expect 2004 profits for the two largest poultry companies, CPF and the less-diversified GFPT, to fall by about a third and a half respectively. Many thousands of people will lose their jobs, and although the government's compensation scheme involves restocking farms, paying for lost income and deferring loans, the pain in the countryside is already being felt.

Unlike SARS a year ago, however, the economic fall-out should be limited to the poultry sector. Thus far, no spillover into other areas, such as the lucrative tourism industry, has been detected, and foreign visitors are not expected to stay away. Yet the Thai baht has wobbled and the stockmarket has tumbled. The main index is 10% down—though that is from a seven-year high it reached on January 12th.

Sentiment is set to remain weak as long as the current uncertainty prevails. But Mr Thaksin reckons the crisis will be over in a month and that economic growth will be hit only by about 0.1%, though his own finance ministry estimates 0.4%. This assumes that production and export levels will be restored to their pre-crisis levels within three to six months: wishful thinking, perhaps, since it takes four months to grow a chicken. Japan has declared that it will wait for three months after the crisis ends before resuming imports from Thailand, while the EU has said Thai assurances over its poultry industry are not persuasive enough to restart trade.

To help restore his credibility, Mr Thaksin called an international summit on January 28th in Bangkok, to discuss ways to contain the flu. Domestically, Mr Thaksin is on firmer ground. The opposition's talked-of no-confidence motion has little chance of success yet. A general election is still expected to be 12 months away. The prime minister hopes that, by then, voters will remember a swift clean up and resolution of the crisis, rather than the initial evasions and flat-footedness.

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Kashmir

Towards peace?

Jan 29th 2004 | DELHI
From The Economist print edition

At last, what looks like a process

Get article background

AFTER nearly 60 years of bitter dispute between India and Pakistan over the sovereignty of Kashmir, and 14 years of bloody insurgency in the Indian-administered part of the territory, no one expects a swift resolution. But at least, says Amitabh Mattoo, an Indian expert on the region, “for the first time in years you can see light at the end of the tunnel.” Two sets of talks—between India and Pakistan, and between the Indian government and moderate Kashmiri separatists—offer negotiation a chance, however slim, of succeeding where violence has failed.

This week India and Pakistan set dates, February 16th-18th, for a first round of promised talks between senior diplomats on all bilateral issues, including Kashmir. Indian officials, meanwhile, were congratulating themselves that a ground-breaking meeting on January 22nd between L.K. Advani, the deputy prime minister, and a group of Kashmiri separatist leaders, had gone better than most had expected. The five-member delegation from the All-Party Hurriyat Conference was rewarded with an audience with the prime minister, Atal Behari Vajpayee. The delegation, according to Umar Farooq, one of its members, found him “serious and sincere about finding the way out.”

Little concrete came out of the discussion. The two sides agreed to meet again, in late March; to pursue a “step-by-step approach” through dialogue; and India promised to “examine” the cases of the hundreds of people detained in Kashmir as suspected militants. But after talking only indirectly or clandestinely, if at all, for so long, this represents progress, even if the shape of an acceptable final compromise remains hard to discern. It looks like the start of something that has not existed until now: a peace process.

But will that process endure? The danger is that the dialogue itself could disqualify the Kashmiri participants as representatives of those struggling for freedom from India. Mr Farooq, the *mirwaiz*, a hereditary post making him the Kashmir valley's senior Muslim cleric, and the other members of the delegation do have a popular following. But as Mr Mattoo, who is vice-chancellor of the University of Jammu in Indian Kashmir, puts it, “these are not towering leaders who can carry the population with them.”

They will need to show that the talks are yielding real benefits—such as the release of detainees and a less intrusive and abusive Indian security presence—if they are not to be seen as selling out. Mr Farooq hopes that India is poised to announce a ceasefire towards militants, though Mr Advani has played down that possibility. Mr Farooq would also like India to let the Hurriyat travel to Pakistan to meet leaders there, thereby completing the third side of a “triangular” dialogue, and visit the militants running camps in Pakistan-administered Kashmir in order to appeal for a reciprocal truce.

A complete end to violence seems a very ambitious hope. More pressing is the need to protect the limited progress made already from the many onslaughts it could face: the tirades of those pro-Pakistan and pro-independence Kashmiris who have denounced the dialogue; terrorist attacks designed to provoke a violent Indian response and thwart any softening of its army's behaviour; perhaps even the assassination of moderate Hurriyat leaders, which was the sad fate of the father of Bilal Lone, one member of the Kashmiri delegation, in 2002. The previous *mirwaiz*, too, was murdered in 1990, which may have helped shape his son's view that “there is no other way” than dialogue.

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China

Road rage, and web rage

Jan 29th 2004 | BEIJING
From The Economist print edition

The growing power of the internet

DRIVING a BMW sports car past unemployed workers waiting for work on street corners is a display of wealth and status that many among the ranks of China's urban poor would find galling enough. But imagine how they would feel if the wealthy driver, fuming after a brush with a tractor, ploughed into a group of people, causing death and injury.

Just such an incident occurred last October outside a job centre in the depressed city of Harbin, about 1,000km (600 miles) north-east of Beijing. Two months later, the driver, Su Xiuwen, got only a suspended sentence for killing the tractor driver's wife and injuring 12 others. The court, oddly, was impressed by Miss Su's argument that she had little idea how to drive having obtained her licence illegally.

China is one of the fastest growing markets in the world for BMWs, but the average urban resident of Harbin would take 100 years to earn enough to buy one. Miss Su's lawyer argued that the case would not have attracted such public interest if her client had been driving a cheaper brand.

The ruling has triggered one of the biggest outpourings of internet rage ever seen in China. One of the country's most popular web portals, Sina.com, received some 200,000 postings on the subject in ten days, close to last year's reaction to the outbreak of the respiratory disease SARS. According to official figures, some 80m people are now regular internet users, nearly 35% more than in 2002. Many Chinese saw the verdict as proof that the judicial system is far too easily manipulated by the rich and powerful.

Some official newspapers joined the furore. *Southern Weekend* said the public's response “reflected the almost complete loss of confidence in the judicial system among average citizens” and gave warning that there could be “serious” nationwide repercussions. Remarkably, the government appeared to buckle under the pressure, announcing in mid-January that the case would be re-examined.

It has some reason to be worried. An official magazine, *Oriental Outlook*, said in December that last year saw a “flood” of petitions submitted by citizens to the central authorities complaining about official wrongdoing or judicial failings. It said the numbers of petitioners who made their way to Beijing was the biggest in 25 years, despite stringent efforts by many provincial governments to stop them.

Li Xiguang, a journalism specialist at Tsinghua University in Beijing, says the government has decided to pay more attention to the internet. Many analysts believe that internet outcries last year shaped the government's response to other incidents, such as cellmates beating to death a student detained for failing to carry a residence permit, and the sentencing of a mafia boss in the north-east. The police were subsequently stripped of their power to detain those without permits, and the gangster's suspended death sentence was changed to execution.

Mr Li sees a negative side to this internet populism. “Court decisions are so easily overthrown by chatroom comment, which represents only a segment of public opinion,” he says. “A democracy needs an independent judicial system.”

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Japan

Rebuild Iraq, redefine Japan

Jan 29th 2004 | TOKYO
From The Economist print edition

Some odd-looking pacifists en route to Mesopotamia

Get article background

THERE is no turning back now. Junichiro Koizumi's government took the final decision this week to make history by deploying Japanese ground troops in Iraq. Next week, the main contingent will begin leaving, in stages, for the southern Iraqi town of Samawa. By early March, more than 500 soldiers, along with some air and naval personnel, will be in place in and around Iraq—the first time since the second world war that Japanese troops will be deployed anywhere near a combat zone. Since the troops will set quite a precedent just by showing up, Mr Koizumi—and nearly everyone in Japan—will hope that they do not make even more history by getting shot at.

The government and the self-defence forces (SDF) have spent months waiting for Iraq to stabilise a bit, all the while trying to devise a reliably uneventful mission. A small advance team of soldiers has checked out Samawa and concluded that it is a relatively safe, stable and manageable part of the country. The mission is to improve the local water supply, distribute medicine, put up buildings and in general help Samawa's people without having to use force. Nevertheless, the troops will live in a well-fortified camp and be authorised to return fire if attacked.

The deployment is a controversial step at home. Since the mission stretches the notion of self-defence—to cover troops outside Japan, whom the government is knowingly putting in harm's way—it represents a once-unthinkable interpretation of the pacifist constitution. Indeed, the opposition leader, Naoto Kan, has questioned the move's constitutionality. Although his Democratic Party has supported other recent laws to upgrade and clarify Japan's defence guidelines, it opposed the law last July that authorised the mission, and plans to make it an issue in upper-house elections in July.

Mr Koizumi's Liberal Democratic Party (LDP) could take some solace this week from a Yomiuri opinion poll, which showed that 53% of Japanese support the troop deployment. And although the LDP's coalition partner, New Komeito, has a pacifist streak (it is backed by Japan's largest lay Buddhist organisation), 69% of Komeito supporters approve too.

Still, the move is clearly risky. Many of its supporters are lukewarm, and would quickly change their minds if it goes wrong. In addition, more than 40% of Japan's voters claim no party affiliation, and only 42% of this swing group backs the sending of troops.

Japan has much more at stake, moreover, than the outcome of this summer's elections. Since the terrorist attacks on America in September 2001, a long-delayed debate on Japan's defence and diplomacy has gone into full swing. The LDP hopes to enact a law this year that will lay the groundwork for revising Japan's constitution—written under American occupation after the second world war—with debate focusing especially on the document's pacifist restrictions. Public debate and opinion have reached a stage at which such revisions now seem at least possible. But that could change quickly if the mission in Iraq goes wrong, and if Japanese soldiers either get killed or end up shooting the wrong people.

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Mongolia

Bridge to nowhere

Jan 29th 2004 | ULAN BATOR
From The Economist print edition

A bridge in the middle of nowhere has become a symbol of bad development

IT MAY lack the fame of Africa's Serengeti, but Mongolia's Eastern Steppe, the size of Oregon or Britain, is the biggest intact grazing ecosystem left on earth, a stunning prairie ocean. It is also, as George Schaller, a zoologist with the Wildlife Conservation Society, points out, home to Asia's last great spectacle of migrating hoofed animals. Over a million Mongolian gazelles roam across this steppe, and the sight of these vast herds on their annual migrations is every bit as breathtaking as that of the Serengeti's wildebeest.

Now, plans for development, of a kind, are throwing the Eastern Steppe's uniqueness into doubt. A host of minerals is thought to lie beneath the steppe: coal, zinc, uranium, oil and even gold. No one knows how much, but neighbouring China has an ever-growing appetite for minerals of all kinds. A mining frenzy that has already gripped the rest of the country—American, Canadian and Australian mining companies are attracted by potentially big deposits and favourable investment laws—is starting to threaten Mongolia's virgin east.

This month, and for the third time, the cabinet of the ruling ex-communist party submitted proposals to parliament to degazette 3.1m hectares of national park, some of it in the Eastern Steppe, so that mining exploration could begin there. After lobbying by local environmentalists, parliament batted the cabinet's proposals down. But with an election coming this summer, an opaque government, and deep-pocketed mining companies keen to get going, the proposals are sure to return. Mining interests, and the Chinese, are also putting pressure upon the Mongolian government for a road and railway to cut eastwards through the steppe.

Plans for this were first aired in 2002 by the Asian Development Bank (ADB) as part of a regional development strategy. Now, a growing number of ADB staff have reservations. For a start, the government's transport policy, in particular its proposed “Millennium Road” that will span the country from west to east (and of which the steppe road would form the easternmost spur), looks to have come straight out of a Soviet planner's briefcase. It promises to be prohibitively expensive at a time when the government lacks the money to keep even the existing few roads under good repair. Drawn as a nearly straight line, the proposed road seems to be trying its best to avoid connecting communities who would be better served by upgrading existing tracks.

Choibalsan, the only city of any size on the Eastern Steppe, is, oddly, given a wide berth, despite its size and its proximity to existing border crossings to China. On the other hand, the eastern spur, as proposed, would run smack into the migrating gazelles. The World Bank and the ADB are adamant, at least in private, that they will not contribute towards such a surreal scheme. Undeterred, the government plans first to build an isolated bridge at the hypothetical road's hypothetical end: across the Nomrog river that forms Mongolia's eastern border with China.

This proposed bridge has fast become a lightning-rod for discontent among environmentalists in Ulan Bator and locals in the country's easternmost province, Dornod. Not bad for a piffling structure 80 kilometres (50 miles) from the nearest Mongolian settlement, that of a nomadic herding family, and over 100km from Sumber, the nearest village.

This is where the absurdities multiply, for the bridge is claimed by its boosters in the Mongolian and Chinese governments to be about to set the local economy on fire. When the bridge, which the Chinese are paying for, reaches the Mongolian bank barely a track awaits it. Meanwhile, traders and local officials in dirt-poor Sumber say they are furious at the new plans. Two years ago, the prime minister, Nambaryn Enkhbayar, promised to improve the road and the bridge at their existing border crossing: but they fear that if the new one goes ahead, theirs will be closed.

In addition, planners want to put the new bridge through the top of a supposedly-protected national park. The Nomrog park, where the Eastern Steppe ends, is a remarkable place of birch forests, river-willows, the rare Eurasian otter and the Urassian moose. The busiest users of a bridge are likely to be Chinese poachers.

So there is embarrassment at the ADB for putting its name to so flawed an idea. At least, staffers say, the American development consultants commissioned by the ADB to look into the plans made it clear that the prospects for commercial traffic did not justify a bridge. Yet the consultants greatly overplayed the potential for eco-tourism from China. That is “a complete fantasy”, says a senior staff member.

There are red faces, too, at the United Nations Development Programme (UNDP). It is intent on helping to create a free-trade region around the Tumen river, spanning China, Russia and North Korea. As a means of tying Mongolia into such a scheme—wildly optimistic though it might be—the Tumen secretariat in Beijing happily endorsed the Nomrog bridge and plans for all sorts of associated “growth triangles”, “transport corridors” and the like. Within Mongolia itself, though, the UNDP's biggest project is none other than conserving the unique biodiversity of the Eastern Steppe.

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Middle East diplomacy

At least they're thinking of talking

Jan 29th 2004 | BEIRUT
From The Economist print edition

Despite the bloody stalemate between Israel and the Palestinians, Arabs elsewhere are trying to think up peaceful ways of breaking it

Get article background

LOVE and peace are not breaking out in the Middle East. Blood still flows in Israel, the West Bank and in Gaza. While the Palestinian leadership sinks further into disarray, and Israel continues to build its security fence, the United States, the only power that might be able to knock heads together, stands aloof, though its peace-talks envoy, John Wolf, is soon to return to the area. This week's exchange of prisoners between Israel and Hizbullah, the Shia militia in Lebanon, may offer a chink of light, but the deal was long expected and took three years of haggling. On the day of the exchange, a suicide-bomber on a bus near the official residence of Israel's prime minister killed at least ten people.

And yet the very bleakness of today's outlook for Arab-Israeli peace may be forcing the players to reassess their priorities. Inside the occupied territories, life has grown increasingly desperate. Food consumption has fallen by one-third since the start of the *intifada*, the Palestinian revolt, in late 2000. Nearly a quarter of young children are acutely malnourished. Two-thirds of the Palestinians have no job. That may be partly why even the radical Islamist groups, Hamas and Islamic Jihad, have recently begun to say that they will accept a long truce with Israel, and may be willing to join a unity government with the secular parties that have so far monopolised office in the Palestinian Authority.

The truce offer is one that Israelis regard as a poisoned chalice, since the Islamists promise to resume hostilities later. But Israel has its own troubles. Several years of zero growth have pushed unemployment to 11%. Last year, Jewish immigration plunged to its lowest level in 15 years. Fear of being drowned by a surging Palestinian population has pushed even some uncompromising Israeli nationalists to accept the need not just to disengage but to help the Palestinians build a future state.

Meanwhile Syria, the most implacable of Israel's enemies, is beginning to succumb to new realities. Squeezed between far more powerful armies—Israel's to the south and America's in Iraq—and bereft of friends, the country is under pressure to sue for peace.

Enter the other Arab countries. After months of fruitless complaint about America's disengagement from the peace process, the superpower's closest Arab allies are inching towards taking their own action as a

matter of urgent self-interest. Jordan, for instance, fears that the wall being built by Israel may, by rendering a Palestinian state unviable, end up pushing Palestinians into its own territory. Egypt's addled economy badly needs investment, but the regional climate makes this unlikely. Saudi Arabia's rulers would like to solve the Palestinian issue, as part of their effort to blunt Islamist extremism.

The failure of George Bush even to mention Palestine in last week's state-of-the-union address may have prompted a flurry of diplomatic activity. Talk now is of relaunching the peace plan put forward by Crown Prince Abdullah of Saudi Arabia two years ago. The plan calls for total Arab acceptance of Israel in exchange for total Israeli withdrawal from occupied territory. But on the day it was approved at a summit of Arab leaders, Hamas suicide-bombed an Israeli hotel restaurant, killing 21 Jews at their Passover supper and provoking Israel to send its army into Palestinian cities, thereby enraging Arab public opinion. Syria, Saddam Hussein's Iraq, and several other “rejectionist” Arab countries had not been keen on the plan in any case, so were happy to let it sink.

A chance, at least, of talk about peace?

If the plan were relaunched, most likely at the Arab summit due in March, it is likely to be beefed up with more specific guarantees of security and formal acceptance in order to tempt Israel. It may also incorporate ideas from some of the unofficial designs for peace that have been circulating, such as the so-called Geneva accord signed by left-of-centre Israelis and some senior Palestinians. Should the Arabs actually do something they have seldom tried before, and make their rejection of the suicide bombings clear to Israeli public opinion, Mr Sharon may find himself under pressure to go along. And with fewer Arab spoilers now able to undercut the Saudi plan, America may take more interest.

But spoilers are, of course, still at large. Palestinian terrorists have made many Israelis so sceptical of sweet words on Arab lips that they would prefer perpetual war to a risky peace. And the mystique of Palestinian “resistance”, buoyed by America's travails in Iraq, has entranced many Arabs into thinking it is worth suffering so long as their enemy bleeds.

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Israel's Greek-island affair

Will Ariel Sharon be forced out?

Jan 29th 2004 | JERUSALEM
From The Economist print edition

Allegations against one of his sons are weakening Israel's prime minister too

Get article background

AS A long police probe into Ariel Sharon's family finances nears its end, Israelis are wondering if their prime minister will have to resign. If he does go, peace overtures from a recently conciliatory Syria may find a readier response. But the conflict with the Palestinians is unlikely to ease if, as is likely, Israel's present right-wing coalition stays in power.

The law requires the attorney-general in person to sign a charge sheet against a serving prime minister. On January 25th, with Mr Sharon righteously recusing himself, his cabinet appointed Menachem (“Meni”) Mazuz, a 48-year-old lawyer, to the post; the new man says he will make his fateful decision expeditiously but not hastily, which probably means weeks rather than months. Some lawyers say Mr Sharon would have to quit if indicted; a high court would order him to go if he tried to stay. Others say he need not step down unless convicted.

Since it would be hard for the 75-year-old Mr Sharon to spend his mornings in the dock and run the country in the afternoons, some of his supporters suggest a speeded-up trial, during which he would suspend himself from office and be replaced temporarily by his deputy, the trade minister, Ehud Olmert. He too has been under investigation, for taking bribes from the same property magnate who allegedly bribed Mr Sharon. But the evidence is apparently too weak to sustain charges against Mr Olmert, so his file is expected soon to be closed.

The opposition Labour Party tabled a bill this week explicitly requiring a prime minister to resign if indicted for a serious criminal offence. The gravity of Mr Sharon's plight was brought home to the public last week when the state prosecution charged the property man, David (“Dudi”) Appel, a big contributor to Mr Sharon's Likud party, with corruption.

The main charge concerns a tourism project that Mr Appel tried to launch in 1999-2000 on a Greek island. He sought the help of the then foreign minister, Mr Sharon, and the then mayor of Jerusalem, Mr Olmert, to persuade Greek officials to give the go-ahead. But he also allegedly provided each of them with logistical help in primary-election campaigns in this period. More controversially, Mr Appel hired Mr Sharon's farmer son, Gilad, who had no experience in tourism, at a huge salary, ostensibly to help with the project. Gilad was to pocket $3m if the project got off the ground. In the event, it flopped, but the prime minister's son still walked away with several hundred thousand dollars.

Separately, Mr Sharon, Gilad and his brother Omri, now a Likud MP, are under investigation over alleged campaign-finance irregularities and alleged financial improprieties and bribery involving the Sharon family. Mr Sharon says he did not handle any of the finances himself but left everything to his sons. Gilad is fighting to resist the prosecutors' demands that he should give them masses of documents and tape-recordings. The police cannot search his home because he and his family live on the family ranch and are thereby sheltered by the prime minister's own parliamentary immunity.

The left and much of the media are baying for blood. Importantly, a leading middle-of-the-road commentator, Dan Margalit, has told the prime minister to quit, if only because of his stonewalling. With his credibility crumbling, says Mr Margalit, he has no more moral authority to lead.

Mr Sharon's friends have belatedly sensed the danger and are said to be coaching their boss for a televised point-by-point rebuttal of the allegations against him. One argument, apparently, is that the very blatancy of what he seems to have done suggests he genuinely did not think his actions improper.

The prime minister's camp is chagrined by the silence of his Likud colleagues since Mr Appel was indicted. Of the potential heirs, only the minister of education, Limor Livnat, has offered public words of support. The finance minister, Binyamin Netanyahu, the likeliest successor, has said nothing; he has, however, criticised Mr Sharon's plan to withdraw unilaterally from parts of the West Bank and Gaza, while urging Mr Sharon to be more receptive to Syria's overtures.

Some of the kindest words for Mr Sharon have come from the leader of the Labour opposition, Shimon Peres, who has urged him to make his case to the nation. Mr Peres's friends are proposing an addendum to the party's resignation bill that would give an indicted prime minister the option of taking leave rather than resigning. Could Mr Peres be hoping to engineer a “unity coalition” with a weakened and hence softened Mr Sharon? This week, the 80-year-old Mr Peres was fighting within his own party to be given another two years as “interim” chairman.

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Iraq's Kurds

Trying to get their own back

Jan 29th 2004 | ARBIL AND KIRKUK
From The Economist print edition

As Iraq's Shia Muslims flex their muscles in the south, the Kurds in the north are following suit

TO THE guards at the gates to Iraq's oldest oilfields, the bickering in Baghdad over the internal boundaries of a federal Iraq is irrelevant. What counts, they say, are facts on the ground. They have daubed “Kurdistan” on the security barricades and replaced Saddam Hussein's portrait in their guardhouse with that of Jalal Talabani, the Kurdish leader in their part of the region. One of five Kurds on Iraq's 25-strong American-appointed Governing Council, Mr Talabani describes Kirkuk, which lies to the south of what was the Kurds' pre-war safe haven, as “the Kurdish Jerusalem”. For two decades, Mr Hussein systematically Arabised the area, bringing in Arabs and expelling Kurds, who had to move north. Now the reverse—Kurdisation, as Kurds like to call it—is in full swing.

To the dismay of neighbouring countries, the Kurdish *peshmerga* guerrillas who rolled down from their mountains into the oil-rich plains of Kirkuk in April last year, when the Americans were poised to take Baghdad, are not minded to budge. The city still looks wretched, but the lakes of oil beneath it could bankroll an otherwise impecunious Kurdish homeland for generations to come. The Kurdish flag flies over the town's former clubs and Baath Party offices. *Peshmergas* man checkpoints some 100km (62 miles) south of Kirkuk. People looking for good jobs say that waving a party card is, as before, almost a prerequisite—except that now the parties with patronage are Kurdish.

Adil Kazzaz, who runs the state-owned Northern Oil Company in Kirkuk, concedes that he has been pressed to put 600 Kurds on his 10,000-strong payroll but says he has yet to sack a single Arab. But beyond the manicured lawns of his headquarters, Arabs and Turkomen (a minority ethnically close to Turks) speak bleakly of Kurdish threats to denounce them to the Americans as Baathists. Some 50,000 have already fled south. Kurds displaced by Mr Hussein now squat in their homes.

The new Jerusalem, for some

For Kurds like Mr Talabani, Kirkuk is their birthright and future capital. His followers are determined to

restore their “natural majority” that Mr Hussein ended during the ethnic cleansing he conducted in the late 1980s known as the *Anfal* (Arabic for “the Spoils”). In the name of Arabisation, Mr Hussein, according to independent human-rights groups, killed 180,000-plus Kurds and expelled some 200,000, while resettling the area with loyal Arabs.

But righting wrongs is painful. On new year's day, Kirkuk's Turkomen (who still control the Chamber of Commerce) and Arabs demonstrated against Kurdish demands for federalism. They taunted the Kurdish-led police with placards of Ayatollah Ali Sistani, hoping that his call for an early general election would lead to majority rule by Shia Muslims who would then seek to integrate the Kurds' safe haven back into Iraq proper and vote down Kurdish separatism. In the gun battle that ensued, five protesters were killed. In Kirkuk the insurgency, which elsewhere in Iraq has subsided since the capture of Mr Hussein, has increased. Almost every night, mortar shells thud into the American airbase. The pipeline to Turkey, which in 2001 carried some 1m barrels a day, is still being sabotaged and is exporting no oil at all.

The Americans are struggling to keep a lid on this bubbling violence. So far they have failed to find a formula for arranging a gradual return of families ousted from their homes under Mr Hussein. Tension between Arabs and Kurds, says an American army civil-affairs officer, is worse even than between Serbs and Albanians in Kosovo, his previous posting.

Down in Baghdad, Paul Bremer, Iraq's American proconsul, is in a bind. He favours a return to the status quo that prevailed before the American invasion. This would let the Kurds keep a wide measure of autonomy in the three provinces north of Kirkuk, but not Kirkuk itself, pending a new Iraqi constitution due to come into force next year. But that, at present, satisfies no one—and all sides blame the Americans. The Kurds suspect Mr Bremer of betraying their war-time alliance by seeking to reimpose rule from Baghdad. But Kirkuk's other ethnic groups say he is handing out spoils. Kirkuk now has a Kurdish governor and police chief, with 13 Kurds on the provincial council and ten Arabs.

Arabs and Turkomen do indeed see the prospect of Iraq-wide democracy as a means to restore majority rule over the Kurds, albeit with considerable devolution to Iraq's 18 governorates: “provincial federalism”, they like to call it.

Mr Bremer has long known that persuading the Kurds to re-integrate into the rest of Iraq would be hard. Young Kurds, especially, have spent their adult lives in a de facto independent state, do not speak Arabic, and wonder why their leaders are messing around in chaotic Baghdad.

In the past week or so, Kurds have been calling for a referendum to decide on their region's future status. It is a decision, they say, for Kurds alone. “We don't want to break away from Iraq but we don't want to give up our freedoms to suit wider political games,” says a typical student in Arbil, stronghold of Massoud Barzani and his Kurdistan Democratic Party (KDP). Mr Talabani's Patriotic Union of Kurdistan (PUK) and the KDP first spurned the referendum movement, for fear it would upset the Americans. But, as the Americans wobbled, they have embraced it.

The Kurds' leaders still say that a federal Kurdistan would not mean breaking Iraq up. One of Mr Barzani's close aides invokes “geographical federalism”—in contrast to the provincial federalism mooted in Baghdad—that would include many minorities (including Turkomen, Assyrian Christians, Chaldeans and Yezidis) all with equal rights. Several of these minorities, they point out, have had ministers in Kurdistan's existing regional government. The aide conceded that defence, foreign policy and some taxes, which the Kurds have controlled under their present self-rule, would have to be decided in Baghdad. Unlike some of Mr Talabani's followers, the Kurds would not, he insists, make a pre-emptive grab for Kirkuk and its oil. Nor would they declare outright independence. That there may be some 2m Kurds in Baghdad is further cause for restraint.

Yet, given the current power vacuum among the Arabs, the Kurds cannot resist the opportunity to take their chance to push their boundaries south to embrace more areas where Kurds live (or once lived, before Mr Hussein had his way).

There is an awkward breathing space between now and early next year; by then, a new constitution will have been drafted and argued over before endorsement by Iraqis in a referendum. Whether peace will hold in the meantime is uncertain.

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Liberia

Of killers and clowns

Jan 29th 2004 | BO WATERSIDE
From The Economist print edition

The UN's biggest peacekeeping force is doing quite well

WITH his comic wooden glasses, baggy britches, oversized shoes and white-painted face, Boutini the clown seems an unlikely front man for a disarmament campaign. But in Liberia, many of the soldiers who need to be disarmed are children. At a “sensitisation” meeting last weekend in Bo Waterside, a sleepy town on the border with Sierra Leone, Boutini reduced a gaggle of ex-fighters to giggles with his slapstick routine. Then he urged them to “Hand in your guns”.

After 14 years of on-off civil war, Liberia is probably west Africa's most destitute country. But since its chief warlord, President Charles Taylor, was toppled, it has had a chance to recover. With two rebel groups threatening his capital (and his life), and America ordering him out, Mr Taylor fled to Nigeria last August.

Now hand over your machinegun

The two rebel groups, LURD and MODEL, are now part of an interim government, which includes a rump of Mr Taylor's old supporters and is headed by a businessman named Gyude Bryant. The world's largest UN peacekeeping force—with 15,000 troops due to be in place by the end of February—upholds a sort of peace. In the towns it patrols, a strict “no-weapons” policy has prompted the gunmen who used to rob and rape with impunity to hide their guns and behave.

Liberia's peace is extremely fragile, however, which is why the UN is so keen to disarm the country's multitude of drug-addled teenage killers. Its first attempt, in early December, was rushed and botched. When the UN said it would give the estimated 40,000-50,000 ex-fighters $300 each for their weapons, thousands swamped an ill-equipped demobilisation camp near Monrovia, the capital. When they realised that the cash was not going to be paid upfront, they started looting and shooting. At least eight people died. The UN paid 12,000 ex-combatants $75 each and postponed the programme. It did, however, destroy 8,000 weapons.

The UN is now trying again, this time taking more care to involve the fighters' commanders, so that the gunmen know exactly what they can and cannot expect. By March, the UN hopes to start housing fighters in temporary camps, where they will receive medical screening, psychological counselling and career advice. After three weeks, they will be given $150 and asked to go home. A few months later, they will get another $150.

Jobs for the boyz

Even if the gunmen are disarmed, rehabilitating them will be hard. There are few jobs in Liberia, and the ex-fighters are among the least employable people anywhere. Take Boima Dagosary. This muscular 15-year-old can wield an AK-47 with considerable expertise, but he cannot read, write, or even spell his own name. “Never been to school,” he explained.

Liberia is only a small country, with no more than 3m citizens. But the UN places a high priority on making peace there, not least because Liberia's war has infected the neighbours. Charles Taylor armed and aided rebel groups in three neighbouring countries: Sierra Leone, Guinea and Côte d'Ivoire. His neighbours retaliated by arming LURD and MODEL.

Liberian gunmen moved back and forth across the country's borders, spreading misery across a wide swathe of west Africa. Some took up arms because they were forced to; others because they noticed that gunmen ate better than those whose rice they stole.

Next week, the UN'ssecretary-general, Kofi Annan, and Colin Powell, America's secretary of state, are to host a conference in New York for potential donors to Liberia. They are seeking up to $500m in emergency aid, to add to the $445m America has already pledged. The money is meant to help stabilise the country enough to allow elections to be held next year.

There are reasons for optimism. One is that Mr Taylor's influence really does seem to have ended. When first exiled, he apparently tried hard to stir up trouble, but when American diplomats showed his Nigerian hosts details of Mr Taylor's intercepted telephone calls, they warned him to stop. Mr Taylor is still rich, but if Nigeria expels him, he is liable to be arrested and dragged before a UN tribunal in Sierra Leone, where he has been indicted for crimes against humanity; America has offered a $2m bounty for his capture. All this doubtless keeps him in check. “We're not even worried about him,” said Jacques Klein, the head of the UN mission in Liberia.

With Mr Taylor gone, however, so is the one goal that united the rebels. LURD is looking fractious. Earlier this month, the LURD chairman's wife, Aisha Conneh, said she had replaced her husband, Sekou Conneh, as leader. “I am the boss lady,” she told your correspondent during an interview in her bedroom, as her baby daughter dozed on the bed beside her. Mr Conneh dismisses his estranged wife's claims. “She is just an uneducated housewife,” he said.

Mrs Conneh is close to the ailing Guinean despot, Lansana Conté. He was said to be LURD's main backer during the war; Mrs Conneh was said to be his “spiritual adviser”. In a region where many people believe in witchcraft, that would imply great influence, but Mrs Conneh denies it. “I was just a refugee, and became his adopted daughter,” she said.

On January 26th, both LURD and MODEL demanded Mr Bryant's resignation, for failing, they said, to govern transparently. What they perhaps meant was that he had not given their members enough jobs. Mr Conneh is openly furious that his supporters have not been awarded 14 junior ministerial positions he claims are their due, and is making ominous threats. “If my people are not allowed to go to work, we will not disarm,” he said. The American ambassador in Monrovia warned both rebel groups that they would not be allowed to wreck the peace process. Some members of both groups now appear to be backing down.

The country's best hope may lie with its people's exhaustion. Many fighters are preparing to disarm, whatever their leaders say. “We are tired of war. We want to go to school and learn a trade,” said Michael Woloh, a 26-year-old veteran, as he wandered the streets trying to sell a mobile-phone charger he looted last summer.

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Southern Sudan's only bookshop

A river runs through it

Jan 29th 2004 | RUMBEK
From The Economist print edition

The people of southern Sudan are starved for reading matter

IF JEROME K. JEROME were alive today, he would be proud. Over a century after he wrote it, “Three Men in a Boat”, his quintessentially English comic novel about accident-prone Victorian gentlemen paddling down the River Thames, is a bestseller in southern Sudan.

This may seem unlikely. Southern Sudan is the scene of Africa's longest-burning civil war. Its people have for decades lived in fear of death or enslavement at the hands of mounted militiamen. How could they relate to a comedy about chaps in red-and-orange blazers sculling to Hampton Court and getting lost in the hedge maze there?

“People find this book a bit hard to understand,” admits William Luk, a bookseller in Rumbek, the war-scarred capital of Bahr el-Ghazal province. But a book doesn't have to sell many copies to qualify as a bestseller in this part of the world. Mr Luk's shop, which he opened in May 2002, is believed to be southern Sudan's only bookshop, and its stock is limited. Apart from three rather tattered mathematics text books, it has Charles Dickens's “David Copperfield”, Mark Twain's “Huckleberry Finn” and 20 copies of “Three Men in a Boat”.

Since he opened his shop, Mr Luk has sold eight books, five of them “Three Men in a Boat”. “If I had a catalogue I would try to choose different books but for now we have to rely on the Ugandan distributors to send us what they think is appropriate,” he says.

Some of his customers are happy, though. A friend enjoyed the book so much that he named his goat “Montmorency” after the dog that accompanies its three heroes down the river. And the Rumbek Secondary, one of the few remaining secondary schools in the south, is considering making it a set text this year, in place of “A Tale of Two Cities”.

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Russia's presidential election

Forward, March

Jan 29th 2004 | MOSCOW
From The Economist print edition

As the opposition wrings its hands, Vladimir Putin's re-election looks inevitable; but, even for him, not everything will be simple thereafter

Get article background

VOLODYA, Vova (jocularly); Vovka, Vovochka (lovingly); Vovik, Vovchik (irreverently); Vladimir Vladimirovich (respectfully); or just plain VVP (enigmatically): whatever they call him, there is no mistaking whom Russians are talking about. Vladimir Putin's will be the only name worth knowing in the March 14th presidential election, for which the registration of candidates closed this week. Even the other Vladimir—Zhirinovsky, the ultra-nationalist buffoon who has been a staple of Russian politics for over a decade—has decided not to run. So has Gennady Zyuganov, leader of the Communists. A poll this week by VTSIOM-A found that Mr Putin would get 79% of the vote if the election were held today. His nearest rival, Sergei Glazyev, an ex-Communist now leading the Kremlin-created Motherland Party, would get 4%.

As the campaign begins, other candidates' ratings will rise—assuming their registrations are accepted, after a frantic drive to amass the 2m signatures needed. Mr Putin's only serious opponent may be Irina Khakamada of the Union of Right Forces (SPS). But even she can probably hope only for high single figures. At a congress on January 24th, convened to analyse its crushing defeat in December's parliamentary elections, the party voted not to support her candidacy. Many lambasted her decision to run, saying that it lends the election ill-deserved credibility. Some accused her of being in the Kremlin's pay, a notion she has somewhat dispelled with acid remarks about Mr Putin.

The opposition has been in turmoil ever since the December election. Both SPS and Yabloko, the other standard-bearer of liberal values, fell short of the 5% threshold for automatic Duma representation. Yabloko remains under the thumb of its long-time leader, Grigory Yavlinsky, who also decided not to run for president this time. But SPS is split. Boris Nemtsov, a former co-chairman (all the top leaders formally resigned after the Duma defeat), backs Mrs Khakamada, arguing that the party lost voters because it agreed too often with the government, and that it needs now to “define itself as an opposition to Putin in all respects.” Another wing, led by Anatoly Chubais, head of the state electricity monopoly, still believes more in exerting influence from within.

Which side comes out ahead, and who leads SPS, will depend partly on how well Mrs Khakamada does.

Some in the party even hope for a third option: that Mikhail Kasyanov, the prime minister, who is widely expected to lose his job after March, may take the reins and give the party a much-needed boost. They point to Ukraine, where Viktor Yushchenko, a former prime minister under President Leonid Kuchma, is now the opposition's leading light and its main presidential hope.

Either way, a serious presidential challenger from outside the pro-Kremlin circle may not emerge for quite a few years. And Mr Putin's power during his next (and, barring constitutional changes, final) term will be close to absolute. United Russia, the main pro-Kremlin party, has two-thirds of the Duma deputies, among them a raft of “independents” who joined it after the election. It controls all 29 Duma committees. The upper house, the Federation Council, already virtually a rubber stamp, became even more of one after its speaker, Sergei Mironov, a close ally of Mr Putin's, forced the resignation of his deputy and main rival.

Those who obsessively follow Kremlin minutiae see hints that Mr Putin is cracking down within his inner circle too. Mr Kasyanov has toned down previous criticism of the legal hounding of Yukos, Russia's biggest oil company, and now seems less enthusiastic than he was about reforming the state's gas monopoly, Gazprom. It looks as if he is trying to save his job—and as if Kremlin rivals, enemies of the business elite, are in the ascendant. As further evidence, prosecutors have issued arrest warrants for several more Yukos shareholders and begun investigating how parts of it were privatised. Somebody else under threat, after the defence ministry launched a salvo against the military top brass, is Anatoly Kvashnin, chief of the general staff. His departure could bring forward a much-delayed military reform.

But watch for April showers

And yet Mr Putin's road is not completely smooth. First, he has to deal with infighting in his circle. If Mr Kasyanov goes, there will be intense competition for his job, which will influence both policy—moves are afoot to increase the state's power over big business, especially in natural resources—and Mr Putin's succession.

In parliament, meanwhile, an unexpectedly strong election result for Motherland has emboldened its leaders, particularly Mr Glazyev, who has been stridently advocating even heavier taxes on natural-resources firms. His power may be minimal, but his rhetoric is double-edged: it allows Mr Putin to appear moderate, but it could strike a popular chord too.

A second source of friction is the United States. This week Colin Powell, America's secretary of state, was in Moscow, uttering concerns about democracy, the rule of law and the like—just the things that George Bush said were “thriving” in Russia when Mr Putin visited him last autumn. America's change of heart has as much to do with domestic politics as with sudden disquiet about Russia. As his own presidential election approaches, Mr Bush must listen more to interest groups unhappy about Russian democracy, the Yukos affair and the war in Chechnya. But, as Mr Powell's earlier visit to Georgia showed (see article), opportunities for the two countries to disagree are increasing.

Above all, Mr Putin's popularity is less solid than it looks. According to VTSIOM-A, only 15% of Russians think that Mr Putin is “handling Russia's problems successfully”. Even on the economy, which has boomed during his first term thanks to high oil prices, he does not get high marks. Sarah Mendelson of the Centre for Strategic and International Studies in Washington, who has studied Russians' attitudes in focus groups, says that, thanks to his respectful portrayal by state-run television, people like Mr Putin for being “sober, young, athletic—in other words, not Boris Yeltsin.” But when asked what Mr Putin has achieved, people have trouble answering. He rides high only because he has no serious challenger or critic. Neither is likely to appear soon.

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Georgia's new president

Hail, Mikhail

Jan 29th 2004 | TBILISI
From The Economist print edition

America seeks to edge Russian influence out of Georgia

AP

Saluting the new flag

THE inauguration of Georgia's new president, Mikhail Saakashvili, on January 25th was long on pageantry, with a medieval standard being proclaimed the national flag. But it was the troops marching past in American uniforms that pointed to the future. The soldiers were Georgian, but for over 18 months they had been trained by instructors from the United States. At first glance, they looked American; they had even been taught not to goose-step.

To the assembled dignitaries, including the American secretary of state, Colin Powell, and the Russian foreign minister, Igor Ivanov, the symbol of shifting influence was all too clear. Just when the Americans had become frustrated with Edward Shevardnadze's inept presidency, the “rose revolution”—a peaceful protest that forced a change at the top last November and propelled Mr Saakashvili to power—came along. This 36-year-old American-educated lawyer makes an ideal partner for the West. Not only is he eager to stamp out corruption and rescue the economy; he is also keen to escape the shadow of Georgia's former Russian masters and to bring the country into the West's clubs, including NATO and even the European Union.

Mr Powell was quick to urge the Russians to keep their vow to close Soviet-era bases in Georgia. Three more years, say the Georgians, should be long enough. Russia wants 11 years, insisting it needs the bases for security, and cannot afford to move them. Georgians say the first argument boils down to big-power psychology. “It's an imperial perception,” says Alexander Rondeli of the Georgian Foundation for Strategic and International Studies. The second argument is more plausible: there are bad memories in Russia of the costs of withdrawing troops from Germany. But it has been undercut by America's offer to pay some of the cost. (Georgia's foreign minister, Tedo Japaridze, says the Russians quoted the sum of $500m, though their foreign ministry denies this.)

As for the Americans, they clearly want to stay in the Caucasus. Their training programme expires this May, but military links will remain. Mr Powell told the Georgians that “the door to NATO remains open,” although he denied any ambitions for an American base. Mr Ivanov said last December that having a NATO country on Russia's southern border would “prompt very obvious concern.” When Moldova's government last November pulled out of a deal to keep Russian bases until 2020, the Russians said it was evidence of western meddling. Mr Saakashvili says he does not want Georgia to be “a battlefield between superpowers”. Sadly, it may not be for him to decide.

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Greek politics

Cool heads

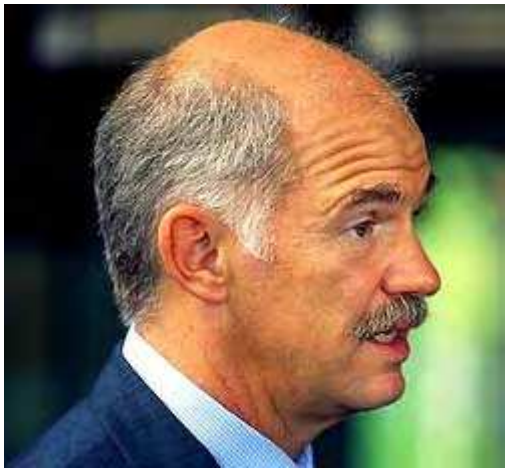
Jan 29th 2004 | ATHENS
From The Economist print edition

A change of leadership may still not bring a socialist election victory

GEORGE PAPANDREOU appears to sail through life with remarkable calmness. Whether galvanising the faithful at noisy rallies, or parleying with Brussels and Washington from remote Greek villages, the foreign minister—and leader-designate of the ruling socialist party—looks cool and unruffled.

And yet he has reason not to be. The polls suggest that his Pan-Hellenic Socialist Movement (Pasok), which has been in power for 19 of the past 22 years, will lose the election on March 7th. So far, the Papandreou effect—the fact that many voters like the man more than his party—has not sufficed to reverse the opposition's lead.

AFP



George in the jungle

Admittedly, the edge enjoyed by New Democracy, the centre-right opposition party, plunged to 2½ points after it emerged earlier this month that Mr Papandreou, not Costas Simitis, the prime minister, would lead Pasok into battle. But Mr Papandreou's halcyon phase proved short-lived. New Democracy's lead widened again as details emerged of a sleazy affair that seemed to epitomise the sharp practices that Pasok has failed to uproot.

The opposition sniffed blood after a deputy economy minister, Christos Pachtas, used a quiet parliamentary moment to push through an amendment to allow holiday homes to be built on sensitive coastal land in northern Greece. When it became obvious that this move was an ugly piece of cronyism, it was denounced by Pasok's leaders, and the guilty were held to account. Mr Pachtas resigned in disgrace, and he and nine other deputies who backed the amendment have been excluded from the election. Fresh legislation will reverse the concession to developers; but the electoral fall-out could still be felt.

Mr Papandreou has also had to react nimbly to an acceleration of diplomatic moves over Cyprus, which could make or break the Greek-Turkish rapprochement that is his biggest achievement as foreign minister. A month ago, the Greek side of the Cyprus conundrum was basking in moral authority, after the UN had blamed the Turkish-Cypriot leader, Rauf Denktash, for wrecking its latest bid to reunify the island; and the Greek-Cypriot government was looking forward to joining the European Union—and hence to a surge in its bargaining power—on May 1st.

But on January 24th, the Turkish side deftly regained the initiative by calling for a fresh round of negotiations, using the UN plan as a “reference point”, not a blueprint, and floating the idea of an early referendum on some bits of a settlement. To any Greek politician, especially one in the throes of an electoral contest, that sounds like a trap. For it may mean locking in concessions that are painful to the Greek-Cypriots—sharing power and money with their Turkish neighbours—with no promise of the demilitarisation or internal boundary adjustment that the Greeks most keenly desire.

In all this Mr Papandreou's gifts, including the use of his personal authority to break the foreign-policy mould, will be tested to the limit. A soft-spoken consensus-builder, he has never built a power base in Pasok, relying instead on name recognition as the son of a populist prime minister, Andreas Papandreou. Politics is a family business in Greece: Costas Karamanlis, the New Democracy leader, is the nephew and namesake of a respected prime minister, and even reformers seem to find that the dynastic factor still counts.

Born in America and educated in Sweden and Britain, Mr Papandreou sounds kinder and gentler than many Greek politicians, including his late father. After Mr Simitis, nicknamed “the book-keeper” because of his interest in financial minutiae, Mr Papandreou's Clintonian style—with his talk of social inclusiveness, and the folksy electronic diary that he posts on the web—makes a welcome change to Greeks.

Yet both election rivals still need to find answers to problems that Mr Simitis has failed to solve: creating more jobs, tackling corruption and removing bureaucratic hurdles that deter foreign investors. Although the stadiums are close to completion, the Athens Olympics in August will be a big challenge for the election winner. Organisers fret about putting the security measures demanded by American and British advisers in place in time. The games could exceed their €4.6 billion ($5.8 billion) budget by a wide margin, say bankers in Athens. Mr Papandreou may yet defy the polls—but whoever takes power in March will find his in-tray overflowing.

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Italy's prime minister

Forza del destino

Jan 29th 2004 | ROME
From The Economist print edition

A change, they say, is as good as a rest

SILVIO BERLUSCONI, returning to the limelight after a month spent mainly at his villa in Sardinia, certainly looked rested—and changed. A former spokesman joked that his cosmetic surgery had left the prime minister looking like “a cross between Boris Karloff and a lovely doll.” But a shiny, wrinkle-free skin, sculpted eyelids and chiselled jaw were not the only novelties on offer. At a rally to mark the tenth anniversary of his entry into politics and the founding of his party, Forza Italia, Mr Berlusconi signalled that his battle with Italy's judges and prosecutors was entering an even more combative phase.

Last year, the prime minister called Italy's magistrates “mentally disturbed” and “anthropologically different”. That could be dismissed as simple abuse, especially since he claimed to have been tipsy. This time, he was clearly sober—but even more insulting. Quoting approvingly from the writings of an admirer who is a Roman Catholic priest, Mr Berlusconi said fascism had been “less odious” than the prosecutors who led the *mani pulite* anti-corruption drive of the early 1990s. Many of his problems with the law stem from proceedings that they initiated.

The best-known prosecutor, Antonio Di Pietro, who left the courts to go into politics, said he would sue Mr Berlusconi over his remarks. Sitting judges and prosecutors were outraged. The effect has been to poison the atmosphere just as the judiciary braces for battle over the government's planned judicial reforms. A bill has been approved by the Senate, though it has yet to be debated in the lower house.

With only a touch of hyperbole, the justice minister, Roberto Castelli, calls the bill “epoch-making”. It would be the first reform of the court system since 1942. The bill would erode, though not wholly abolish, the unusual system under which Italian judges and prosecutors follow the same career structure—and so, say critics, develop a collegiate spirit detrimental to fair trials. It would curb the power of judges to deliver sentences manifestly at odds with the letter of the law. It would bar them from political activity (though a proposed ban on belonging to political parties, the opposition says, would violate their constitutional rights). And it would scrap promotion by seniority, making it subject instead to the passing of exams.

Such reforms are open to debate. But, as ever in the Berlusconi era, the real concern is not their objective merits but their subjective intention—which seems to be to undermine Mr Berlusconi's attackers.

Perhaps oddly, the bill does little to tackle the biggest defect in Italian justice: its slowness. Cases can be heard up to three times before final sentencing. Might this be because the prime minister has been a prime beneficiary of delay, several charges against him having run beyond a statute of limitations? Likewise, the bill proposes a more hierarchical structure for prosecutors. Might the hope be to make them more susceptible to government control? The opposition has no doubts. “This is a law born of punitive intent,” said Elvio Fassone of the Left Democrats. He may be wrong. But Mr Berlusconi's attack reinforces suspicions that he is right.

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Germany's welfare state

Dropping the pilot

Jan 29th 2004 | BERLIN
From The Economist print edition

Fall-out from the sacking of a labour-agency head

FINALLY, directors who take their jobs seriously? On January 24th the supervisory board of Germany's Federal Labour Agency fired its boss, Florian Gerster. He had lost the board's trust, it was said, by spending millions on a new office, signing fishy consulting contracts and displaying a political tin ear. Alas, the sacking is not, in fact, an example of good governance at work. On the contrary, it is one more sign that Germany badly needs to change how its welfare state is run.

The Federal Labour Agency is a prime example of German corporatism, with origins going back as far as Bismarck. The agency is run not by the government alone, as are its equivalents in other countries, but jointly with trade unions and employers. Government, labour and business nominate seven members apiece to its federal board. That ratio is replicated at each of 180 local labour agencies, so that in total almost 2,200 directors watch over some 90,000 employees.

Al though bloated, this self-government has more or less worked in the past. It has also reflected the agency's financing: employers and employees contribute equally to unemployment insurance, with tax money making up the rest of the agency's €53 billion ($66 billion) annual budget. But with membership of trade unions, as well as of employers' associations, in steep decline, and with ever more Germans without a job (unemployment is 4.3m, or 10.4%), the agency's organisation now seems both outdated and inefficient.

Critics claim that non-government directors tend to defend their organisations' interests, particularly in the billions spent on retraining, most of which goes to firms owned either by unions or by employers' associations. Worse, the agency has become a bureaucratic behemoth that is bad at helping job-seekers in today's market. Dissatisfaction with the agency's performance came to a head in 2002, when it emerged that it was common practice to falsify job-placement figures.

Enter Mr Gerster, a former social-affairs minister in Rhineland-Palatinate. His mission was to turn the agency into a modern service provider that treats the unemployed as customers, not as objects to be managed. Apparently he did a good job—which upset both the interest-groups and opposition Christian Democrats, who do not want the government to succeed in reforming labour markets. But Mr Gerster's political awkwardness also made it easy for his foes, by judicious leaking, to build a media campaign against him.

Some are now calling for the abolition of the agency—and even the scrapping of the federal unemployment-insurance fund (if workers simply saved the 6.5% of gross wages that employers and employees now each contribute, that could give the newly jobless enough of a cushion to get through several months of unemployment). But such radical reforms are unlikely to happen soon, says Jürgen Donges, an economics professor at Cologne University. Instead, he argues, the agency's supervisory board should no longer represent interest-groups, but be composed of independent experts.

Whether Mr Gerster's dismissal will lead to such a change may depend on the outcome of an unrelated pay dispute in Germany's engineering industries. That will show if trade unions are willing to be more responsible about exploiting their power. IG Metall, Germany's giant engineering union, staged warning strikes this week. The sticking-point is not so much pay as an “opening clause”, demanded by employers, that would allow companies to vary the length of the working week between 35 and 40 hours, so as to adapt wage costs to market conditions.

The debate about the labour agency could also spill into other parts of the welfare state. In health care, for instance, insurance-company associations and doctors wield too much influence—and have recently

watered down reforms. If Germany's much-touted structural reforms are ever to work their magic, many more elements of its old-fashioned corporatist structures may have to go.

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Central Europe

Happy hotch-potch

Jan 29th 2004 | RIGA
From The Economist print edition

What is different about new EU members from central Europe

CONTIGUOUS they may be, consubstantial they are not. The countries of central Europe (not, they insist, eastern Europe, which each of them says begins to their east) are growing tired of being lumped together in generalisations of all kinds, as they prepare to join the European Union, together with Cyprus and Malta, on May 1st. So here is a brief attempt to set the record straight.

Not every country in central Europe is a poor, small place with bad roads, corrupt officials, a rackety Russian-built nuclear-power plant and a squabbling coalition government. They are all rather charming, in their different ways. And they are all rather different, in their different ways.

Start with “poor”. The eight newcomers to the EU have an average GDP per head of about one-quarter of today's EU average. But that conceals some wide differences. Incomes in the richest country, Slovenia, are three times those in the poorest, Latvia—a far greater gap than exists inside the EU now.

However, measured by purchasing-power parity, which takes prices into account and so gives a better indication of local living standards, the whole region looks better off. Slovenia's GDP per head rises to more than 70% of the EU average. Its average wage in 2002 was higher than that of Greece or Portugal. Cross the border from Austria into Slovenia and you have to look hard to notice the difference.

Slovenia could be called “small”, at 20,000 square kilometres (7,700 square miles) in area, yet it is still seven times the size of Luxembourg and 70 times Malta. But the three Baltic countries find it irritating to be tagged as “tiny”. Each is bigger in area than Belgium, the Netherlands or Denmark, albeit less populous than any of them. Poland, the biggest country in central Europe, will be the sixth-biggest country in the EU in both area and population.

Linguistically, the central Europeans are more diverse than the Union they join. Each has a different national language (if one accepts Czech and Slovak as separate languages), or roughly one for every 6m people, not counting Russian and the Romany dialects spoken by the region's largest minorities. Today's 15 EU countries make do with 11 national languages among them, or one for every 34m people. Half of central Europe's national languages are Slavic in origin. Latvian and Lithuanian stem from the Baltic branch of the Indo-European tree. Estonian and Hungarian are Uralic languages, distantly related to one another, closely related to Finnish in the case of Estonian, and perhaps more distantly related to Japanese.

Politically, the central European countries all escaped from communism at the turn of the 1990s, albeit from different manifestations of it. The Baltic three were occupied and annexed by the Soviet Union for half a century. Poland, Hungary, the Czech Republic and Slovakia (the latter two were one country until 1993) had titular independence, but they were run from Moscow by national communist parties, and garrisoned with Soviet troops. Slovenia was part of Yugoslavia, which favoured a more liberal brand of communism and sparred ideologically with the Soviet Union. Pro-American feeling in the region correlates closely with lingering anti-Russian sentiment. It is strongest in the Baltic countries and Poland, a touch

weaker in Hungary and the Czech Republic, weaker still in Slovakia and Slovenia.

All of which is not to say that all generalisations about central Europe are false. Many are at least half-true. Rural populations are large everywhere. Nationalism is rarely far from the political mainstream. Squabbling coalition governments are the rule except in Slovenia, which is also the only country with decent roads. The beer is excellent everywhere. So drink to diversity—but skip the food. The region lacks any national cuisine worth celebrating.

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Charlemagne

Three's a crowd

Jan 29th 2004
From The Economist print edition

Britain seeks to make the Franco-German couple a threesome

JUST over a year ago, the Franco-German couple renewed their 40-year marriage vows at elaborate ceremonies in Versailles and at the Elysée in Paris. United in their opposition to the war in Iraq and in their estrangement from the United States, France and Germany embraced each other with new ardour. Over the next 12 months Gerhard Schröder, the German chancellor, and Jacques Chirac, the French president, carefully co-ordinated their positions on all big international and European issues. At one European Union summit, Mr Schröder even invited the French president to stand in for him.

But now a new year has dawned; and it appears that the old couple no longer have eyes only for each other. On February 18th Mr Schröder will host a summit in Berlin. The guests will be Mr Chirac, naturally, but also Britain's Tony Blair. Is the Franco-German duo about to become a triumvirate? And could these three set the agenda for an enlarged EU of 25 countries, in the way that France and Germany effectively ran the EU when it was a much smaller club?

The immediate outcome of the Berlin summit is likely to be unexciting. Expect guff about the urgency of economic reform and the need for progress on the EU's new constitution. But the meeting is still important, because it may be part of an emerging pattern. Other European countries have always feared that the “bigs” would try to set up an informal directorate to dominate the EU. Now they fear that one is emerging before their eyes. Last week Franco Frattini, the Italian foreign minister, said disapprovingly that “there cannot be a directorate, a divisive nucleus which would threaten European unity.”

Jack Straw, Britain's foreign secretary, reassured Mr Frattini that the Berlin meeting was merely an informal consultation. But he also told *Le Figaro*, a French newspaper, that it is “logical to couple Britain with the Franco-German engine, since Europe is going to expand from 15 to 25 members.” The British reckon that France and Germany can no longer set the EU's agenda as they once did. Their failure to dictate a common line on Iraq and to force the EU's draft constitution through last month's summit in Brussels demonstrates as much. In short, the British conclude, the French and Germans need Tony Blair.

Italy, Spain and Poland have reasons to fear such a shift in British thinking that go well beyond offended dignity. All three countries have been working closely with Britain over the past year, as part of an informal alliance aimed at countering the Franco-German couple's influence over the EU. Donald Rumsfeld, the American defence secretary, helpfully supplied labels for these two groups, as “old” and “new” Europe. But is Britain about to shift from new to old—lured by a promise of a joint share in the leadership of Europe?

There is certainly a lively debate going on in the small circle of British policymakers concerned with EU affairs. One Labour politician worries that Britain could be making the mistake of compromising its ties with the “new” Europeans, even though “in the end we are never going to share the Franco-German vision of Europe”. According to this view, the French and Germans will always be resistant to economic reform, and instinctively anti-American. If Britain wants to counter these tendencies, it can do so only by allying with other like-minded countries.

But a senior British diplomat counters that it would be a mistake for Britain to rely too heavily on the new close relationships with the Italian, Polish and Spanish governments. If the left were to return to power in Italy and Spain, for example, those countries might well revert to their traditionally federalist views and fall in behind France and Germany. Britain might then be left high and dry. “It's not that we're switching horses,” explains the diplomat. “We're trying to ride several horses at once.” Britain needs its ties with the “new” Europeans; but not at the expense of an estrangement from France and Germany. Hence the new British cosiness with the old couple.

Perfidious Albion

But what is in it for the French and Germans? There are still officials in Paris and Berlin who believe that any flirtation with Britain is bound to end in tears. In the end, they reason, the British will always be incorrigibly pro-American and suspicious of the EU. But others think the British may be tempted into a more “European” position, particularly on defence, if only they are treated with more respect. Some senior French and German officials noted their setbacks over Iraq and the constitution, and concluded, with little pleasure, that the British have a point when they argue that the Franco-German engine can no longer pull the whole European train behind it.

The current stock phrase in Berlin is that Franco-German agreement is a “necessary, but not a sufficient condition” for moving the EU forward. As for the French, recent developments have only confirmed their view that the enlarged EU will be an unworkable mess. A senior French official declares that EU meetings are now “absolutely atrocious”, because there are too many participants. By contrast, the same official sings the praises of a recent joint mission to Iran by the foreign ministers of Britain, France and Germany, with no EU involvement. More such missions may be in the offing.

Is all this necessarily bad news for the other members of the European Union? Some newer members of the EU insist that they can see a positive side to the British joining the Franco-German couple, since it would ensure that a greater diversity of views are represented, on everything from defence to economic reform. It is not in the interests of the smaller EU countries to see the Union split into rival camps, as it was over Iraq, and be forced to choose between the factions. But the new members must also fear that, having striven so hard to join the EU, they may discover that the real decisions are increasingly taken elsewhere.

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About sponsorship

Hutton report: “Sexing up” the dossier

Not guilty

Jan 29th 2004
From The Economist print edition

Reuters

How Lord Hutton cleared the government of “sexing up” its dossier on Iraq's WMD

Get article background

LORD HUTTON, the judge asked to inquire into the circumstances surrounding the death of David Kelly, a government weapons scientist, appears to have a limited admiration for journalists (see article). But it was a former journalist, Alastair Campbell, the government's director of communications until his resignation last summer, who summed up the impact of Lord Hutton's report best: “Today the stain on the integrity of the prime minister and the government has been removed.”

Since May 29th 2003, when Andrew Gilligan, the defence correspondent of “Today”, BBC radio's flagship morning current affairs show, accused the government of having deliberately “sexed up” an intelligence-based dossier describing Iraq's weapons of mass destruction, the government, and Tony Blair in particular, has been in the dock.

Much of the evidence gathered in the course of Lord Hutton's inquiry suggested that the BBC reporter may have exaggerated his claims just as much as he suggested the government had its. But somehow the charge that Downing Street had bullied the intelligence services into inserting into the dossier a claim it knew to be wrong had stuck. The claim—that Iraq could launch chemical or biological weapons with 45 minutes' notice—had been an eye-catching part of the government's case that Iraq was a real and present danger.

Mr Gilligan's accusation, given traction by the failure in the aftermath of the war to discover any Iraqi WMD capability, could hardly have been more serious. In effect, Mr Gilligan and the BBC were saying that the prime minister had corrupted intelligence in order to bolster the case for war. The tragic consequence of this allegation was the bitter fight between the government and the BBC that led to the suicide of Mr Gilligan's source, Dr Kelly.

Although, in the course of Lord Hutton's inquiry, the BBC and Mr Gilligan had admitted to some errors in their reporting and in the subsequent handling of the government's increasingly anguished complaints, both had continued to stand by the substance of the original broadcast. Coincident with Lord Hutton's examination of witnesses last September, a report by the senior MPs of the Intelligence and Security Committee had already cleared the government of Mr Gilligan's central charge of turning the sober assessments of the Joint Intelligence Committee (JIC), which brings together the heads of the country's

intelligence services, into lurid propaganda. But with all eyes on Lord Hutton, nobody seemed to notice.

Which must have made Lord Hutton's conclusions this week all the sweeter for Mr Blair. On just about every aspect of Lord Hutton's report, it was game, set and match to the government. The BBC had got it wrong about as badly as it could have. On another point of controversy that was central to Mr Blair's integrity, the government was judged to have been entirely justified in allowing Dr Kelly's identity to emerge in the way it did. Most important, Lord Hutton cleared the government of Mr Gilligan's sexing-up slur in the most unambiguous terms possible.

What happened when

September 24th 2002	Government publishes Iraq dossier
May 22nd 2003	Kelly meets Gilligan in Charing Cross Hotel
May 29th	Gilligan alleges on "Today" programme that Iraq dossier was "sexed up"
June 1st	Gilligan article in *Mail on Sunday* accuses Campbell of "sexing up" dossier
June 6th	Campbell complains to the BBC about Gilligan
June 30th	Kelly writes to his line manager admitting meeting Gilligan
July 6th	BBC governors defend Gilligan's report
July 8th	Government announces a possible source has come forward
July 9th	Kelly is named in press as Gilligan's source
July 15th	Kelly appears before Foreign Affairs Committee
July 16th	Kelly gives evidence to Intelligence and Security Committee
July 17th	Kelly is found dead; Blair announces a public inquiry

Lord Hutton found that the dossier had, as the government maintained all along, been prepared and drafted by the chairman of the JIC, John Scarlett, and his assessment staff. Alastair Campbell was cleared of any inappropriate interference with the dossier: it was reasonable for him to have been involved in strengthening the wording of the document as long as Mr Scarlett accepted only changes that were consistent with the intelligence services' assessment. When the dossier was published on September 24th 2002, it had the full approval of the JIC.

Lord Hutton thought it possible that "subconsciously", Mr Scarlett may have been influenced by his desire to please a prime minister who was hoping for the strongest possible case to be made. But there was no evidence that, if this was so, it caused him to deviate from the available intelligence material.

As for the 45-minute claim, Lord Hutton rejected the idea that it was inherently unreliable because it emanated from a single source and accepted that its late inclusion in the second draft was due to the fact that the information had not been received until August 29th. One of Dr Kelly's colleagues, Brian Jones, the head of the WMD section of the Defence Intelligence Staff, had expressed concerns to the inquiry about the strength of the wording used to describe the 45-minute capability. However, Lord Hutton was dismissive of the suggestion that the views of dissenting intelligence officers had been deliberately ignored. Their opinions had received proper consideration.

Lord Hutton concluded that the allegation the dossier had been "sexed up" was "unfounded as it would have been understood by those who heard the broadcasts to mean that the dossier had been embellished with intelligence known or believed to be false or unreliable".

How the main characters fared

Who	Accused of	Hutton's verdict
Tony Blair	"Sexing up" the September 2002 dossier with material known to be false; leaking Kelly's name to reporters	"The allegation that the Government ordered the dossier to be 'sexed up' was unfounded." There was no "dishonourable or underhand or duplicitous strategy" to leak Kelly's name
Alastair Campbell (Blair's communications chief)	Leaning on the intelligence services to "sex up" the dossier; pursuing a personal vendetta against the BBC	"Raised very considerably the temperature of the dispute" with the BBC. Made drafting suggestions, but didn't try to override the intelligence services
Geoff Hoon (Defence secretary)	Leaking Kelly's name to reporters; failing in his duty of care to an employee	"It is unrealistic to think that the name could have been kept secret indefinitely." But his ministry "was at fault" for failing to tell Kelly that his name would be confirmed to reporters
John Scarlett (Head of Joint Intelligence Committee)	Going along with government demands to hype Iraq dossier, ignoring spooks' reservations	May have been "subconsciously influenced" by politicians, but "did not accept drafting suggestions...unless they were in keeping with the intelligence available to the JIC"
David Kelly (Adviser to the Ministry of Defence)	Having unauthorised conversations with journalists; misrepresenting these to employers and MPs	Meeting with Gilligan was unauthorised. He "must also have been worried" about a taped conversation with another BBC journalist, which contradicted his account
Andrew Gilligan (BBC defence correspondent)	Levelling false accusations at the government; misquoting and misrepresenting Dr Kelly	His report that the government inserted the 45-minute claim knowing it to be wrong and against the wishes of the intelligence services was "unfounded"
Richard Sambrook (BBC director of news)	Jumping to Gilligan's defence without scrutinising evidence for his claims	Initially failed to check Gilligan's notes, and later "failed to appreciat that the notes did not fully support the most serious of the allegation
Greg Dyke (BBC director-general)	Sloppy management; inadequate investigation of government complaints	BBC's editorial system was "defective"; management was "at fault" for failing to investigate complaints properly
Gavyn Davies (BBC chairman of governors)	Failing to investigate journalistic errors	"The governors are to be criticised" for failing to investigate Gilligan's reporting

Sources: *The Economist*; Hutton report

Lord Hutton's kind words will provide much comfort for the government. But many people will ask: "So what?" As Lord Hutton made clear, it was not a part of his remit to determine either whether the intelligence contained in the dossier was accurate or whether it was reasonable to build a case for going to war on it. For those who believe that the war was wrong, Lord Hutton's report is beside the point. Had he found differently, they would have been delighted, but nothing he has said this week will change their view. And while Lord Hutton's inquiry has provided many fascinating insights into the workings of government, it has shed no light on the question of why those carefully crafted intelligence assessments now seem to have been so wide of the mark.

This, above all, will continue to pose a problem for Mr Blair. Lord Hutton may have established that neither he nor anybody else in government lied. That is important; and it was graceless of Michael Howard, the Conservative leader, who has come close to calling the prime minister a liar in recent weeks, to refuse to acknowledge as much. But as long as there is no satisfactory explanation for those missing WMD, Lord Hutton's exoneration may do less to restore trust in the prime minister than he is hoping.

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Hutton and the BBC

Auntie goes down

Jan 29th 2004
From The Economist print edition

Lord Hutton's verdict on the BBC could hardly have been more damning

Get article background

IN THE aftermath of the Hutton report's publication, the contrast between the bosses of the two organisations whose battle led to David Kelly's death could not have been sharper. Tony Blair was pugnacious and cheerful. Gavyn Davies, the BBC's chairman, and Greg Dyke, its director-general, resigned. The corporation's acting chairman, Lord Ryder, then apologised "unreservedly for [the BBC's] errors and to the individuals whose reputations were affected by them". The corporation's capitulation was dramatic; more important, though, will be the long-term consequences for the way the BBC is run.

On May 29th 2003, Andrew Gilligan, a BBC defence correspondent, reported that an unnamed intelligence source said that the government probably knew the 45-minute claim to be false. In an article in the *Mail on Sunday* he said that, when asked at whose behest the dossier was "sexed up", his source responded: "Campbell".

Alastair Campbell demanded an apology. None came. Richard Sambrook, the BBC's director of news, wrote to Mr Campbell, defending the report. The BBC's governors put out a statement admitting minor errors—the "Today" programme should, for instance, have contacted Number 10 before putting out the report—but saying that the report was "in the public interest". Not in Lord Hutton's view: on the basis of Mr Gilligan's sketchy notes of the meeting, and other evidence, Lord Hutton concluded that Mr Gilligan's "very grave allegation" was "unfounded".

Lord Hutton sharply criticised the editorial system that allowed Mr Gilligan's report to be broadcast. The reporter's most damaging allegations were made in the course of an unscripted interview with the programme's presenter from Mr Gilligan's home at 6.07am, when the journalist was perhaps not thinking as sharply as he might have been. Mr Gilligan's defence made much of the idea that in a democratic society the media should publish stories in the public interest. Fair enough, said Lord Hutton; but "where a reporter is intending to broadcast or publish information impugning the integrity of others the management of his broadcasting company or newspaper should ensure that a system is in place whereby his...editors give careful consideration to the wording of the report and to whether it is right...to broadcast or publish it." The BBC's system, in Lord Hutton's view, was "defective" in allowing Mr Gilligan to make such an allegation without his editor seeing a script of what he intended to say.

Lord Hutton also came down heavily on the management and the governors for their failure to deal properly with the governors' complaint. Mr Dyke, the director-general, failed to read a transcript of Mr Gilligan's report, even though it made a "very grave allegation", for a month after it went out. Richard Sambrook, the director of news, responded to Mr Campbell's complaint without going through Mr Gilligan's notes to see whether they substantiated the allegation. The governors came out in support of the report without investigating its accuracy.

Lord Hutton's condemnation of the BBC has not been met with universal enthusiasm. Some critics point out that, given Mr Campbell's form as a bully of journalists, the BBC's defensiveness was understandable. What's more, many BBC journalists believed—and still believe—that, even if Mr Gilligan's report was wrong in some of its details, its broad thrust was right.

In his evidence, Mr Davies leant heavily on the importance of defending the BBC's independence. Lord Hutton pointed out that protecting the BBC's independence was not the same thing as neglecting to investigate serious complaints by the government against a correspondent. In the long term, Mr Davies's determination to protect the BBC's independence may have the opposite effect. At present, the BBC is

regulated by its governors. Their failure is likely to lead to an outsider being given the job of keeping an eye on the corporation.

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About sponsorship

Hutton and Dr Kelly's treatment

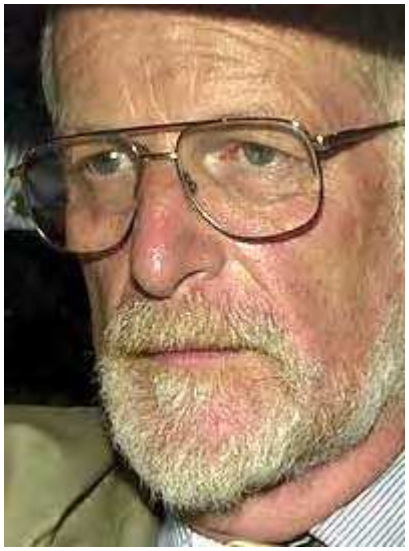
Fairly caring

Jan 29th 2004
From The Economist print edition

David Kelly's employers are largely—but not wholly—vindicated

Get article background

PA



Not helped, nor easy to help

DID government ill-treatment drive David Kelly to suicide? When the news came out, many thought so. Some saw Dr Kelly as a whistle-blower, a public-spirited civil servant who had exposed official deceit. A second view was that Dr Kelly may have been at fault for speaking too freely to an untrustworthy journalist, but that the government had exposed him when they should have shielded him. The third and mildest critique was that although it might have been necessary to release his name, the government did it in a shabby, underhand way, thus contributing to his suicide. The impression of callousness was strengthened by an entry in Alastair Campbell's diary, noting jubilantly that exposing the source would "fuck Gilligan" by undermining his story.

Lord Hutton rejected the first charge (which has in any case been blunted by Mr Gilligan's own retractions). He emphatically cleared the government of the second but partially confirmed the third.

In the second charge, the first issue is how far Dr Kelly broke civil service rules by meeting Mr Gilligan. Lord Hutton said he clearly did. His employers allowed him to mingle with journalists at conferences, and take calls checking matters of fact. But a pre-arranged and unauthorised meeting with a journalist he had not met for months went far beyond that.

Given that breach of the rules, how did top officials and ministers behave? The evidence on this to Lord Hutton caused the government's most uncomfortable moments: there was seemingly contradictory evidence; the whiff of a coverup about the prime minister's own unusually involved role; haphazard and unminuted meetings; suggestions that Dr Kelly was threatened with the loss of his security clearance, his pension, or even his job.

Lord Hutton referred obliquely to "some differences and areas of uncertainty" in the evidence of Mr Campbell and Geoff Hoon, but focused on the difficulties facing the government. Two parliamentary committees were interested in the identity of the BBC's source; they had a right to know if an official had come forward. Keeping quiet would lead to allegations of a cover-up. The press might mistakenly light on some entirely innocent civil servant. And Dr Kelly said he could not be Mr Gilligan's sole source: what if officials named him, when the culprit was somebody else?

So the government did not want to release the name outright, but it could not conceal it altogether. The Ministry of Defence therefore devised a clumsy question-and-answer script for its press officers. If reporters guessed correctly, Dr Kelly's identity would be confirmed. This strategy degenerated into farce: one journalist put forward 20 names before getting it right.

Lord Hutton said that looking at the details in isolation it was possible to infer an underhand strategy by the government—and at the start of the inquiry he himself "found a case of some strength" could be made for it. But he concluded that the government "acted reasonably" to avoid charges of covering up. He also cleared the prime minister of the specific charge that he personally authorised the leak of Dr Kelly's name. Although Mr Blair chaired a meeting that agreed a statement saying that an anonymous official had come forward, the method of dealing with ensuing media inquiries was left to the Ministry of Defence.

In short: puzzling loose ends that once seemed capable of making a hangman's noose for the government have frayed to insignificance in Lord Hutton's hands.

Where the defence ministry was at fault, Lord Hutton says, was in not first gaining Dr Kelly's consent, or at least warning him properly, before naming him. But he cites mitigating circumstances: exposure to the press was only one of the causes of Dr Kelly's misery (another was his fateful disavowal to the Foreign Affairs Committee of an interview with another BBC journalist, Susan Watts, that in fact existed on tape). Secondly, officials did try to support him, at least to some extent. Thirdly, “because of his intensely private nature, Dr Kelly was not an easy man to help or to whom to give advice.”

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About sponsorship

Universities

Jammed

Jan 29th 2004
From The Economist print edition

Despite winning higher fees, universities still can't escape economics

Not a free ride, but at least a subsidised one

NUTRITIOUS or not, when you are hungry the promise of a meal is welcome. England's impoverished universities are grateful that at least the principle of higher and variable tuition fees has squeaked through the first big parliamentary vote on the government's higher education bill. The forecast annual net £1 billion ($1.83 billion) gain is less than they hoped for and will pay out fully only in 2009. “It is not jam today,” admits Ivor Crewe, who heads the dons' main lobbying outfit, Universities UK. “It is some jam the day after tomorrow. But that is better than ten years of bread and water.”

That Tony Blair was willing to risk his future over the arcane details of university finance was indeed gratifying. Past governments have preferred to posture, expanding the universities while allowing them to decline. “It was a brave fight that has produced a helpful principle, but we can't live on principles,” says one academic grandee. “I can't pay salaries with principles, or repair buildings with them.”

So what happens next? One immediate benefit is that universities can start planning for the future with a bit more certainty. Security and the prospect of higher salaries may make an academic career look marginally more attractive. (That is important: the brain drain out of universities has been a huge, if largely hidden, loss in past decades.) On the minus side, some of the country's weakest universities, which would otherwise have faced closure or forced amalgamation, may now stagger miserably on for a bit longer.

But the big question concerns the effect on university finances. At the moment, government subsidy and the flat-rate £1,125 tuition fee cover a bit less than half the average cost of educating an undergraduate. Universities cross-subsidise from students from outside the European Union, who typically pay fees ten times higher, and from research income, investments and the profits on other activities.

That encourages universities to cram in foreigners, while sometimes skimping on everything else. The London School of Economics (LSE), for example, has trebled the number of overseas postgraduates in the past 20 years and increased the number of foreign undergraduates by 75%. Over the same period the proportion of British undergraduates has dropped from two-thirds to just half. Sir Howard Davies, the LSE's director, says that the new £3,000 maximum fee will halve the deficit on this “loss-making business”. The trend towards full-fee foreign students “will diminish, but not disappear.” Meanwhile it needs at least £100m to replace or repair its decrepit buildings.

But the LSE has an advantage: social sciences are cheap to teach. At Imperial College, which specialises in science and engineering at an average cost per undergraduate of £15,000, the trend is likely to be the other way. If the government does not raise the maximum fee or provide more cash, Imperial's rector, Sir Richard Sykes, says he will have to increase full-fee foreign undergraduate students by a third, to around 40%, with a matching drop in the number of home students.

It is much the same story at Oxford. This has a costly staff-student ratio involving individual tuition of a kind most universities elsewhere have abandoned. Sir Colin Lucas, the vice-chancellor, says Oxford is rethinking both the numbers of foreign students and the fees they pay, and will announce new arrangements soon.

The less grand universities, now euphemistically called “mainstream”, will see their economics changed too. Their spokesman, Michael Driscoll, the vice-chancellor of Middlesex University, expects “rapid rationalisation” as the gap grows between courses that attract students, such as business studies, and those that don't, such as chemistry. The key will be the ability to lure full-fee students: expensive courses that nobody wants to take will be hard to defend. How shocking.

Mr Driscoll dismisses the idea that universities will use variability to price such courses more attractively. “We intend to charge the maximum for all courses,” he says. “We can't argue that we need extra funding and not charge the maximum fee. Secondly, charging the maximum possible raises more money for bursaries.”

Those bursaries are just one of the concessions the government added in order to persuade sceptical left-wingers to vote for the bill. Universities charging the top fee must pay £300 a year to undergraduates from poor backgrounds.

But the main sweeteners are financed directly from the taxpayer, at a cost of around £1.15 billion a year. Big changes will occur in the regime for poor students, who currently gain only a fee waiver. In the new scheme, students from the poorest families get a means-tested grant of up to £2,700 a year and a further loan, again means-tested, of up to £3,555. Loans are interest-free, though inflation-linked. Those not repaid after 25 years will be written off.

The result of this generosity is a pretty good deal for students: an average male graduate, according to the Institute for Fiscal Studies, can expect lifetime earnings of £1.2m. Even a middle-class student (excluded from the best grant and loan combination) could expect to graduate with a debt to the government of only £18,665, to be paid back over 19 years. That compares with the £330,000 he could expect to pay in income taxes. Fine for the students, then. But how the country's top universities survive is still an open question.

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Terrorism

Monkey dust-up

Jan 29th 2004
From The Economist print edition

Threats have forced the shelving of a new scientific laboratory in Cambridge

IT IS shameful enough when the forces of unreason triumph. When they win by threatening violence, it is even worse. Yet that is the upshot of Cambridge University's decision to bin plans for a new neuroscience laboratory that would have studied illnesses in monkeys' brains, gaining, by extension, clues about human brains afflicted with Parkinson's, Alzheimer's and other diseases.

Experimenting on monkeys is, rightly, a sensitive issue. The fact that their brains are sufficiently similar to those of humans for the experiments to be worthwhile raises the question of whether they are sufficiently similar to deserve special protection. And, indeed, the legal protections in Britain for experimental mammals are among the most stringent in the world. But the contention, often made by animal-rights groups, that such experiments are useless because monkeys are not people, is not borne out by the long history of research in the area.

The Cambridge project was opposed by many animal-rights groups from the beginning. It was rejected by two planning inquiries, but then approved on grounds of national interest by the deputy prime minister, John Prescott. Its opponents have appealed against that decision.

So far, so reasonable. But the university has now decided to abandon the project, saying that while waiting for planning permission the cost has risen from £24m to an unaffordable £32m. That is doubtless true, but there is a twist: the extra costs involve not just building and running the lab, but also defending it.

Britain's animal-welfare lobby has a long history, and for the most part an honourable one. But over the past few decades it has attracted fanatical thugs to its ranks. These people have threatened, and in some cases attacked, scientists and their families, both at universities and at companies such as Huntingdon Life Sciences, which used to have its headquarters near Cambridge, but has now had to move to America. They have also routinely vandalised property. And they have stolen animals. It seems that the university authorities felt they could not afford to defend the new laboratory against such threats.

Such threats are a form of terrorism. Indeed, the reason that the first inquiry rejected the project was because of police fears about public safety. Though the government makes supportive noises in defence of both scientific research and lawful business involving animals, few prosecutions have been brought against animal-rights activists who have crossed the line from legal protest to illegal threats and violence. It is hard to imagine such a laid-back attitude were politicians in suits, rather than scientists in white coats, being threatened. But some victims of terror seemingly matter more than others.

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Public finances

Credibility gap

Jan 29th 2004
From The Economist print edition

Mr Brown's sums don't add up even if he reduces public spending growth

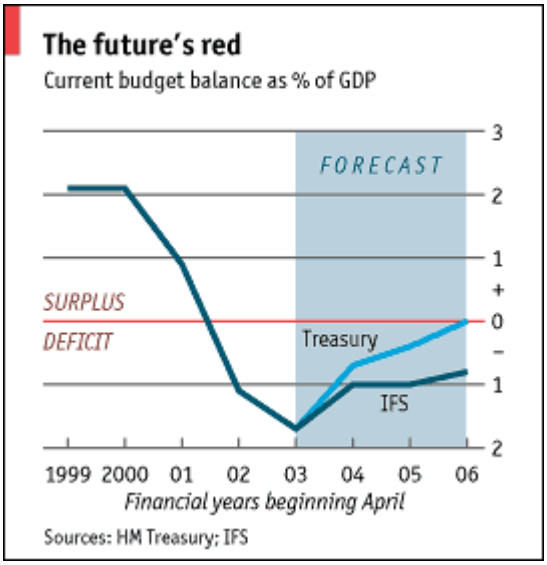
GORDON BROWN gave warning this week that he was poised to slam on the brakes. In his spring budget and summer spending review, the chancellor of the exchequer is expected to slow annual real growth in total spending from 4.7% in the three years to 2005-06 to 2.6% in the following two years. Since much of the extra money until 2007-08 is already earmarked for the pound-guzzling NHS and as education will remain a priority, other parts of the public sector are facing the knife.

That is a bleak prospect for a Labour government that has made so much of its record as a big spender on the public services. To make matters worse, ending the public-spending boom will not get Mr Brown off the tax hook. The Institute for Fiscal Studies (IFS) said on January 28th that the chancellor would have to raise taxes by £13 billion in order to fill the hole in the public finances.

Mr Brown aims to meet his "golden rule" of borrowing only to invest by keeping the current budget, which excludes net investment, in balance over the economic cycle. According to the Treasury, this started in 1999-2000 and will end in 2005-06. In the past two years, the current budget has swung heavily into deficit; in 2003-04 it will reach £19 billion. This and future deficits in this cycle may just be offset by previous surpluses, but what matters is if the current budget is still in deficit at the start of the next cycle.

The Treasury is confident that by 2006-07 the current budget will be back in balance (see chart). This is because it is expecting the economy to deliver a sharp recovery in revenues even without tax rises. In the December pre-budget report, it forecast that receipts would rise by 1.8% of GDP between 2003-04 and 2006-07.

The IFS thinks that the chancellor is too optimistic. It is expecting a smaller rise in receipts of 1.1% of GDP by 2006-07. Its forecast for public spending is also a bit higher than the Treasury's. So altogether, the IFS expects the current-account budget to remain in the red, with a deficit of 0.8% of GDP in 2006-07. That is why it says taxes will have to rise.



It is possible that fortune will smile on Mr Brown. The trouble is that his forecasts appear to assume that. Unless there are significant signs of improvement in the public finances over the year ahead, the chancellor's credibility will start to wear thin. That will influence the outcome of the next general election, which is likely to happen in 2005.

The Labour Party occupied impregnable fiscal ground in the 2001 election. Mr Brown could finance big spending increases at no apparent cost to taxpayers because the Treasury had chalked up such big surpluses. By contrast, Labour will have to fight on treacherous terrain when it next goes to the polls. The public spending boom will be drawing to a close. If sizeable budget deficits persist, the threat of post-dated tax increases is likely to dominate the campaign. That will make for a more even contest.

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Football finance

Disunited by a horse

Jan 29th 2004
From The Economist print edition

Great horse, great club, great manager, great trouble: the Ferguson saga

ROCK OF GIBRALTAR, says an expert in horseflesh, is “the sort of miler that you see in 20 or 30 years.” Sir Alex Ferguson, the least expert fan can tell you, is that sort of football manager. Too bad that the manager of Manchester United ever met the owner of the racehorse, John Magnier. For the two, once on good terms, have fallen out, over the horse. And with a fellow-Irishman, J.P. McManus, Mr Magnier also owns 25.5% of Manchester United.

The trouble sprang from an act of generosity: Mr Magnier registered the horse as jointly owned by his own wife and his good friend, racing enthusiast Sir Alex. That, thought Sir Alex, entitled him to half its future stud fees—a right, if it was one, that was soon worth millions. Mr Magnier disagreed. Discord became quarrel, then row, and eventually a Dublin lawsuit.

And so to Manchester. Mr Magnier and his partner wrote to the club about “astonishing” fees going to agents involved in recent transfer deals. The club had to listen to its big shareholders. And there was worse. To many fans, United is its Scottish manager's (and their own) private footie club. It is in fact a listed public company. So when the Irish pair added heavy hints that some of the lolly ended with a man close to Sir Alex's agent son, Jason, the London Stock Exchange had to listen too.

The quarrel became public last November, when Sir Alex launched his lawsuit. This month the Irishmen hit back. A series of letters to United, leaked to the *Sunday Times*, not only cast doubt on the transfer deals but called on the board to freeze negotiations on a new, long-term contract with Sir Alex. This week, the board had to promise the stockmarket authorities a “thorough” review of its transfer deals.

Not thorough enough, the Irish pair feel, since it will be conducted by United's finance director. They want it done by an independent auditor. Though the board has already replaced plans for a new four-year contract for Sir Alex with a rolling one, the Irishmen may yet call a meeting of shareholders over wider issues.

It's all pretty embarrassing for United, already in the football authorities' doghouse for the failure of one of its stars to take a drugs test, and—this week—only number two in the premiership, instead of the number one traditional under the Ferguson regime. And as businessmen the board may yet find their faces redder than the players' shirts. Here is a company with £39m of pre-tax profit last season, and valued at almost £700m (albeit on a dizzying prospective price-earnings ratio of 40-plus). Yet if the Irish allegations prove true, some of its dealings will look to have been pretty odd, by stockmarket standards, if not those of modern football finance.

Meanwhile, Rock Of Gibraltar, retired from racing since the end of 2002, stands happily ready to cover well over 100 mares a year at Mr Magnier's Coolmore Stud in County Tipperary at €65,000 (£46,000) a throw, and maybe rather fewer, a bit more cheaply, in Australia. Gross earnings, say, £9m-10m a year—more than double the £4m which is talked of for Sir Alex's new contract. Nice work, if you can get it.

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Urban design

Not so Keyne

Jan 29th 2004 | MILTON KEYNES
From The Economist print edition

The new urbanism and its discontents

Get article background

FOR a brief spell in the early 1970s, Milton Keynes was chic. Architects and urban planners flocked to the new town, hoping to fill its intriguingly straight roads with modernist masterpieces. Then the big project-money disappeared, and commercial developers began to roll out cul-de-sacs. These days, Milton Keynes is a pariah among towns—sprawling, car-dominated and (apart from a few concrete cows) lacking in aesthetic interest.

“MK”, as it is known to boosters, now has the chance to redeem itself. Earlier this month, the government confirmed that 70,000 new homes would be built in and around the town, almost doubling its population. Following the new urbanist orthodoxy, these are to be smart, high-density developments where neighbours will stroll and socialise. Planners and politicians seem happy: John Best, chief executive of the borough council, is already talking about “the new-look Milton Keynes”.

Building these ideals may not be so easy. Mark Clapson, an urban historian, points out that the people of Milton Keynes have long shown a heroic disregard for conventional notions of beauty and urban planning. Architects may dislike the town, but the feeling is mutual.

On the Beanhill estate, elegant aluminium-clad houses built by Lord Foster in the 1970s can be had for around £100,000—a third below the average price in the town, according to Hometrack, a research firm. Lord Foster's “tins” would be worth even less, but the residents have thoughtfully added pitched roofs and splashes of mock Tudor finishing. In MK, that's the kind of thing that adds value.

Why are Milton Keynesians, as they are splendidly known, so allergic to modern urban design? Partly it's to do with their background. Many of the town's earliest settlers came there to get away from the London slums, where they learned first-hand about the drawbacks of city living.

One of the refugees is Len Bagnall, who lives on the locally reviled Netherfield estate. Having grown up in Peckham, south London, he associates high-density housing with bed bugs rather than neighbourliness. Mr Bagnall would have much preferred a suburban semi to his present terraced home (which is much admired by architects), but he can't afford it.

The planned expansion will force Milton Keynes to adopt some urban ways. Andrew Armes, who heads the council's development team, insists that it cannot simply roll out more low-density suburbs: there isn't space, and the famously free roads would clog up. But when those new trendy flats go up, just watch the stone cladding and mock Tudor beams follow.

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Bagehot

Less drama please

Jan 29th 2004
From The Economist print edition

Tony Blair's love of theatre has exhausted his colleagues

WHATEVER anybody says, a victory, even by the very narrowest of margins, is a great deal better than defeat. If the bill to secure variable university tuition fees had been lost (or only humiliatingly salvaged by conflating it with a subsequent vote of confidence), Tony Blair would have been severely, perhaps terminally, wounded. However, having seen its theoretical majority of 161 collapse to just five, the government cannot carry on as if nothing has happened.

Everybody seems to agree that the government must never go through such a debilitating trauma again. In the normal way of things, avoiding such a recurrence depends on understanding how this one came about and learning from it. The tuition fees drama holds three fairly obvious lessons for the government—about party unity, about the prime minister's personal style, and about Mr Blair's relationship with the chancellor of the exchequer. The trouble is that identifying problems is one thing, doing something about them quite another.

After the massive rebellions over Iraq, foundation hospitals and, now, university funding, there is a danger of division and anarchy becoming habit-forming. The Tories, after their disgraceful opportunism this week (on tuition fees and just about everything else), look no more impressive than they did under the wretched Iain Duncan Smith. But the possibility that the government might simply start to implode is a real one.

In the aftermath of this painful episode, it is generally accepted that the prime minister must learn from his mistakes. Mr Blair's cabinet colleagues, above all John Prescott, the deputy prime minister, and Gordon Brown, the chancellor, whose last-minute arm-twisting saved the day, are demanding that he prepare the ground for controversial reforms by consulting with the party first. The implication is that the next time Mr Blair issues a command from the Downing Street *Führerbunker* in apocalyptic back-me-or-sack-me terms, the reply will be one he won't like.

As for the serial rebels, they must, in the words of one minister, “take a good look at themselves”. The prime minister's back-bench critics need to rediscover their loyalty, if not to Mr Blair personally, at least to the government he leads.

Neither is likely to happen. What the last few months has shown is that there are up to 100 Labour MPs who will coalesce to oppose anything in the government's programme that is difficult or contentious. Of those, around 40 reject the notion of “New Labour” and vote accordingly. Increasingly liable to join them is a swelling band of malcontents—mostly either dumped former ministers or the perennially overlooked—who feel they have been personally slighted by the prime minister.

Stir in any number of soft-left sentimentalists, whose instinctive distrust of the slightest challenge to those sacred Labour cows, equity and universalism, can never be underestimated, and you can see why even someone of Mr Blair's persuasive skills might question how far consultation will get him. Ominously, the habitual rebels have also begun to revel in the minor celebrity with which the media rewards them for behaving badly. The same happened to the Tories (names such as Bill Cash spring painfully to mind) and look what became of them.

Second time around

If restoring party discipline, once lost, is a tall order, so too is expecting the prime minister fundamentally to change his *modus operandi*. Mr Blair's entire success as a politician has been based, in

essence, on running against his own party. Whether it was embracing Conservative trade union reforms, expunging the socialist holy writ of Clause Four from the party's constitution, trying to wrench public services into the consumer age or fighting the war in Iraq, Mr Blair has defined himself against his party rather than through it.

Mr Blair is never so sure of himself as when trying to force the Labour Party to do things it would rather not. He also relishes being at the centre of an unfolding drama—one reason why he has been at his very best during this last week of crisis. Most of the government's front bench looked drained and exhausted after the tension of Tuesday night's vote, but Mr Blair seemed invigorated. Once again, his determination “to do the right thing” had been vindicated. The plea that he should turn himself into a cautious, patient consensus-builder too much contradicts Mr Blair's own self-image for it to stand much of a chance.

That said, even Mr Blair may be prepared to heed the advice of senior colleagues to avoid another big confrontation with his party before the next election. He will still have to deal with a guerrilla campaign to hobble the higher education bill as it passes through its committee stage. He will, however, be desperately unwilling to accept that this week has seen the high-water mark of the government's attempts to reform public services. The critical question for Mr Blair now is whether he can cajole the party into swallowing an election manifesto sufficiently radical in tone to allow him a further crack at it.

What is perfectly clear is that any such enterprise will fail unless it is carried through in close co-operation with the chancellor. The last few days should have emphasised yet again these neighbours' mutual dependency. Mr Brown could have demonstrated his enthusiastic support for tuition fees earlier, but without his belated intervention, the government would have been defeated. Yet if it had been, he would have lost as much as Mr Blair. It is not in Mr Brown's interest to lead a divided party, a large part of which has set its face against change.

With Lord Hutton's exoneration behind him, Mr Blair may well feel a sense of personal renewal, but without Mr Brown's support, it will be short-lived. Whether or not ten years ago there ever was any agreement between the two men over Mr Brown's eventual succession, it may be time for one now.

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Correction: universities

Jan 29th 2004
From The Economist print edition

Last week's special report on universities contained two graphs that overstated the proportion of GDP spent by selected countries on tertiary education. The correct graphs can be found here.

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The pharmaceutical industry

The trouble with cheap drugs

Jan 29th 2004
From The Economist print edition

Europe pays a lot less for its drugs than America. But do hidden costs mean that Europeans are actually worse off?

AP

IN THE drug industry, they call it “Europe's free ride”. Government pricing regimes mean that prescription drugs cost far less in Europe than in America, where a growing proportion of new drugs are developed—presumably because Americans are willing to bear the lion's share of development costs. On the face of it, Europe reaps big rewards. It spends 60% per head less on drugs than America. In 1992, the gap was 30%. Had spending kept pace with America, last year alone Europe would have shelled out an extra $160 billion. The cumulative “saving” since 1992 is approaching $1 trillion—quite some free ride.

Europe's drug firms do not appear to suffer unduly as a result. On January 26th, Sanofi-Synthélabo made a *euro*48 billion ($60 billion) hostile bid for Aventis, a larger French group. The combined entity would be the industry's third-biggest firm, behind Pfizer of America and Britain's GlaxoSmithKline (GSK). A combination of cheap drugs and successful big drug firms would seem to suggest that Europe is doing something right.

But is the saving from cheap drugs more apparent than real? And are Europe's drug firms in fact struggling to keep up with more dynamic American competitors? A new study* by Bain, a consultant, argues that the existing pricing regimes are bad for everyone, including patients. “The free ride is not free,” argues Paul Rosenburg, a co-author. “If governments and drug companies begin to accept this, then future policy on health-care innovation and spending can be far more rational.”

America certainly resents European meddling with prices, blaming it for higher drug prices at home. Mark McClennan, head of the Food & Drug Administration (FDA), which oversees America's drug industry, said recently: “The main reason [American drug] prices are higher is that our country is paying the bulk of the costs of developing new treatments. That's got many Americans angry.”

Prozac needed?

But should Americans be angry? And should they force down drug prices at home? True, a few big firms, such as Pfizer, the global leader, feel that in Europe they lose profits that could otherwise fund new research (or go to shareholders). True, also, America suffers from large “grey” import markets in both Canada and Mexico, as canny consumers cross the border into cheaper markets to buy otherwise costly

drugs (see article).

On the other hand, America gains from its growing dominance of drug research and development (R&D). A decade ago, Europe and America each spent roughly $10 billion a year on drug R&D. Now, America spends almost $30 billion annually, and Europe a little more than $20 billion. A growing number of firms now base their R&D efforts in America. Drugs R&D in Germany fell by 3% in 1992-2002.

One result is a striking decline in European drug innovation. Bain examined how many so-called new molecular entities (NMEs) have been produced in recent years. In 1993-97, Europe launched 81 NMEs and America 48. But in 1998-2002, the respective figures were 44 and 85, almost an exact reversal.

With the transatlantic shift in R&D goes many high-value jobs, as well as a greater share of the industry's profits. According to Bain, America created 42% more high-value pharmaceutical jobs in 1999-2001, and the trend is continuing. In 1992 the global drugs industry made profits of $60 billion, less than half of which were in America. In 2002, industry profits were $121 billion— 60% generated in America.

European drug executives are increasingly concerned. On January 26th, for instance, Jean-Pierre Garnier, boss of GSK, spoke out against the loss of jobs, arguing that Europe's love of red tape is throttling innovation. Maybe so. But the thrust of Bain's study is that the main reason for America's growing dominance of drug R&D is not the red tape so much as Europe's tougher price controls on drugs, particularly new drugs.

Exactly how drug-pricing regimes influence innovation is complex—and much debated. According to Bain, research shows that the main economic factor driving where firms locate their R&D is how big, and quick, are the potential profits. That gives America an advantage over Europe, where price controls slow down profit-taking. True, early-stage research can take place anywhere in the world—and big drug firms are increasingly looking to shift this to lower-cost places. (GSK recently linked up to do research with Ranbaxy, a leading Indian drug firm.) But the bulk of costs are incurred in the development phase between early-stage and market. And the process of drug approval remains very much a national, as opposed to global, activity. So it makes sense for firms to put promising drugs on trial in the market where there is most to gain—namely, for now, America.

That could change, of course—particularly given the continuing attempts to reduce drug prices in America. Although the Bain study suggests that a big divide occurred between Europe and America over the past decade, and that the gap is likely to continue to grow, policy shifts in either place could profoundly alter the picture.

Also typically ignored when assessing the overall drug-pricing regime is how patients fare. In America, despite what often seems a lack of urgency at the FDA, new drugs get to market relatively quickly, and so can begin to improve the quality of life of patients. By contrast, the approval process in Europe can drag. It is on average one-third slower. Negotiating with governments to allow access to expensive new treatments is a big hurdle in Europe.

Bain looked closely at Germany, Europe's biggest drugs market—accounting for one-fifth of total spending and of the industry's European jobs. Germans have relatively high life expectancy, but get access to new drugs relatively slowly and by many measures their overall health standards are worse than those in America. Germans spend more time in hospital and lose far more working days to sickness than Americans. Germans suffering from heart disease and breast cancer have worse mortality rates, thanks to the unwillingness or inability of doctors to prescribe the newest, most effective—and most expensive—drugs.

A decade ago, Germany boasted two of the world's top ten drug firms—Bayer and Hoechst. Now it has none. Hoechst, for instance, merged with France's Rhône-Poulenc to form Aventis, which itself might now disappear, either in a merger with Sanofi or into the arms of a white knight.

According to Bain, a proper accounting for Germany's spending on drugs produces an alarming result. In 2002, Germany saved $19 billion because it spent much less per head than America on drugs. On the other hand, says Bain, in the same year, Germany lost out on $4 billion from R&D, patents and related benefits that went elsewhere. It lost $8 billion because high-value jobs went somewhere else—plus the benefits of those jobs from the “multiplier effect”. German drug firms would have made $3 billion more profit if they had kept pace with rivals elsewhere. A further $2 billion was lost as the country shed corporate headquarters and the benefits they bring. The cost of poorer-than-necessary health was $5 billion.

Of course, these calculations rely on some rough and ready assumptions. Even so, Bain arguably errs on the side of caution. It plays down, rather than up, the multiplier benefits of jobs in the drug industry, for instance. In sum, it reckons that Germany's $19 billion saving is in fact a $3 billion net loss. “When you add up all of the costs, the free rider model is actually quite expensive,” argues Mr Rosenburg.

Even if Europe's governments accept the logic of the Bain study, it seems unlikely that they will abandon price controls, not least because of short-term budget constraints for publicly financed health care. (More likely, America will impose its own tougher price controls.) A more typical, though less effective, European response would be to strive harder to attract, or at least keep, drugs R&D by offering a mix of tax relief and subsidy. And Mr Garnier might get some help with red tape. Faster drug launches, fewer restrictions on access to consumers, even faster price negotiations, would all make the pill easier to swallow. But it remains a bitter and, despite appearances, expensive one.

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*”Addressing the innovation divide”, January 2004

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America's Mexican medicine

Border line drugs

Jan 29th 2004 | TUCSON, ARIZONA
From The Economist print edition

Americans head south with their prescriptions

AP

Y tu mamá también

ANOTHER day, another bus heads out of Tucson towards Nogales, a town an hour's drive away in Mexico. Aboard are dozens of mainly older people who are off to buy drugs—not the illegal sort, but prescription drugs that can be purchased across the border for a fraction of the price in America. It is a tempting journey for those who lack health insurance or struggle to pay rising premiums: such trips are estimated to account for up to $2 billion of annual drug spending.

Every sort of prescription drug can be bought in Mexico. The top sellers are antibiotics, birth control pills, anti-depressants and anti-ulcer medicines. The American customs, much less the Food and Drug Administration (FDA), have seemed not to notice—unless the medicines are controlled substances, such as opiates or performance-enhancing steroids, or bought with the intent of resale in America.

The Mexican trade far outstrips a similar market that has developed between Canada and America. But the principle is the same: why pay $100 for a prescription in Detroit when you can buy the same drug for $50-60 just across the border in Canada? Internet pharmacies also make purchasing easy.

While the Mexican trade has attracted only a little attention, there has been a loud and increasingly bitter debate about the illegal cross-border business with Canada. One reason is that America has broader diplomatic tensions with its northern neighbour, and politicians have been reluctant to attack Mexico while it is involved in a more urgent battle against trade in illicit drugs and illegal immigrants.

There are signs this might be changing, albeit slowly. For instance, tucked deep in the heart of America's controversial new Medicare bill is explicit language banning the re-importation of medicines into America from Mexico, Canada or any other country, unless Tommy Thompson, the health secretary, approves the medicines. But Mr Thompson has repeatedly said he has no intention of approving such drugs, because, he says, it could put Americans at risk. Presumably that is because he thinks that Canada and Mexico do not have the same standards of safety and efficacy required by the FDA.

This fails to convince Canadians, who see the political hand of big drug firms at work: 90% of their drugs have also been approved by the FDA. And there is a twist in the Medicare bill's use of the term “re-importation”. Unlike in Canada, where most pharmacies stock American-made drugs, most Mexican medicines are made in Mexico or places other than America. Every big drug firm has operations in

Mexico, so there is no shortage of pharmacists. Strictly speaking, drugs bought there by Americans are not re-imported, but simply imported. Those bus rides to Nogales will continue for a while yet.

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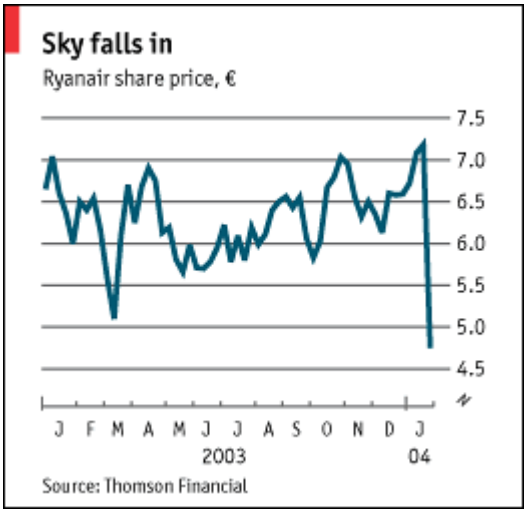
Low-cost airlines

Grounded?

Jan 29th 2004 | BRUSSELS AND LONDON
From The Economist print edition

Trouble for the market leader



RYANAIR, the most aggressive of Europe's low-cost airlines, saw its share price plunge by 30% on January 28th, following reports that the European Commission is about to clamp down on cut-price-deals which it has with relatively out-of-the-way airports keen to lure tourists. This came along with warnings that the airline's growth was slackening as its expansion collided with rising costs. It has increased capacity by 50% a year since 2001. Even so, the EU decision should not break the business model of Ryanair. At most, says Chris Avery, airline analyst at J.P. Morgan Chase, it will clip two percentage points off operating margins.

The European Commission is supposed to be promoting new jobs, competition and travel between EU countries. Deregulating internal aviation and boosting low-cost travel are, arguably, among its greatest achievements. That is why it is odd that it is poised to take a decision that will hurt Ryanair, an Irish airline whose rise has helped slash the cost of travel, and created thousands of jobs—many at under-used airports in depressed areas.

Ryanair's deal with one such airport is the source of the trouble. Charleroi, a city with a 30% jobless rate 45 minutes by road from the commission's home in Brussels, welcomed Ryanair with open arms. Too open, says the commission. Its transport directorate has all but finalised a ruling that will declare that special deals struck by Ryanair with the local government in Charleroi amount to illegal state subsidies.

These deals include a 50% reduction in landing charges and generous subsidies for training and the recruitment of staff. Some in the commission are uncomfortable with a ruling that will force the Belgian state to try to reclaim many of these “subsidies”. But they appear to be in a minority. The commission will probably approve the ruling next week.

The commission is being tough, not least because it is a legalistic organisation that feels that it must be seen to uphold EU law—however perverse the results. Even so, it is not exactly unheard-of for political considerations to influence a decision on illegal state-aid.

Last year, the commission was soft in its treatment of Alstom, a huge French engineering group, following French government pressure. Ryanair lacks such political clout, however. And although Michael O'Leary, the airline's boss, can wow the press, he does not always do so to good effect. The commission reacts badly to being bad-mouthed in public.

Is there any better way to resolve this issue? One proposal, which would greatly reduce the chances of any state subsidy distorting the market, would be to privatise Europe's many publicly-owned airports. Such a solution, alas, is almost certainly a flight of fancy.

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Computer security

A virus with a motive

Jan 29th 2004 | SAN FRANCISCO
From The Economist print edition

Could Linux sympathisers be behind the latest cyberattack?

A NEW computer virus, the fastest-spreading ever, was this week making the rounds among unprotected computers running on Microsoft Windows. Such incidents of online vandalism by what are often presumed to be geeky teenage hackers are, sadly, routine. But this virus, called MyDoom by some and Novarg by others, seems to be of a different nature—conspiratorial and political. That is because its main feature, besides humiliating Microsoft, is to turn infected machines into weapons against a controversial company called SCO.

SCO, a tiny software firm in Utah, and Microsoft, the world's largest software firm, have only one thing in common. Both are passionately hated by “open-source” software programmers, who typically believe that computer code should be freely shared instead of sold as property. Microsoft is hated chiefly because it represents the opposite model, proprietary software, and because its operating system, Windows, is the main rival to Linux, the best-known open-source software today.

SCO is hated even more intensely. That is because it claims—vaguely, so far—that Linux contains stolen code from an older operating system, called UNIX, the copyright for which SCO owns. So SCO has sued firms that distribute Linux, such as IBM, and intends soon to start to sue those that use Linux. Google, the popular search engine and a heavy user of Linux, is one potential target.

As a result, malicious hackers have declared open season on SCO. MyDoom is the fourth attack against SCO's website so far. The code, upon infecting a computer, is designed to wait until the Superbowl on February 1st and then deluge SCO's website with so much internet traffic that it breaks down. Darl McBride, SCO's chief executive, says he will pay a reward of $250,000 to anybody who provides information to track the perpetrators down, and that the FBI is also on the case. “We believe it is somebody sympathetic to the Linux cause,” he says.

Linux leaders are outraged by suggestions that a member of their community could be behind MyDoom. Bruce Perens, an open-source evangelist, reminds sympathisers that Linux has been trouncing SCO in the public-relations battle, and urges his fellow open-sourcers “to deplore the attacks” and “always take the high road”. As to who the perpetrators might be, Mr Perens thinks that SCO “would not balk at attacking their own site in order to paint their opponents in a bad light.” As the war enters its second year, the gloves are clearly off.

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Privatisation in Poland

Stranded

Jan 29th 2004 | WARSAW
From The Economist print edition

Another shocking mess

THERE are many good ways to do privatisation. The Polish government's long attempt to sell the “G8” cluster of power distributors in central and northern Poland is not one of them. After tempting some global heavyweights of the electricity business, such as Germany's E.ON, the treasury then scared them off by driving too hard a bargain. This left it with a solitary, meagre bid, from Jan Kulczyk, Poland's richest entrepreneur, who, according to some distrustful parliamentarians, may have leaned on Poland's prime minister to keep the auction alive. On January 27th, NIK, Poland's national auditor, called for the G8 sale to be suspended as part of its wholesale review of the restructuring of the electricity industry.

A series of botched privatisations over the past few years has tarnished the reform of Poland's investment-starved, largely state-owned power sector. True, the headwinds have been strong. A sharp economic slowdown in 2001-02 soured Poland's investment climate. The post-Enron woes of American utilities reduced the list of buyers. Moreover, the government has put three of its largest generators—now merging—off limits to investors even though the government itself is financially and administratively ill-equipped to restructure the ailing industry.

Yet as privatisation falters, competition is finally at hand—after years of promises to scrap the monopsony model under which the state grid, PSE, buys most of the country's electricity. The European Union, which Poland joins on May 1st, wants PSE's transmission network unbundled from its trading business, to ease third-party access to the grid. On January 6th, the government approved a scheme to cancel PSE's fixed-price long-term contracts with generators. The contracts—some of which do not expire for over a decade—were used by plants as collateral for hefty bank loans to pay for environmental upgrades. Now, though, the contracts have become the enemy of deregulation, as they dominate the market.

Poland is not alone in tackling the vexed issue of “stranded costs”—investments that suddenly become uneconomic due to deregulation. But its plan for annulling the contracts has unnerved utilities and banks alike. The scheme would securitise the contracts, worth up to $5 billion, via a huge bond issue by a special company to be set up by PSE, backed by a levy on electricity sales. Even assuming the offering is successful, which is uncertain given that its size would be unprecedented in eastern Europe, generators would have to settle for arbitrary compensation payments for the termination of contracts.

Some prominent foreign investors in the Polish power industry are mulling legal action against the government—especially those that took on credit risk by doing contract-backed project-finance deals. PSEG, an American utility that has just finished the construction of a new $335m combined heat-and-power plant near Katowice, fears that the banks will call in their loans if its contract is scrapped, raising the spectre of creditors seizing control of the plant. Even giant state-owned Electricité de France (EdF) is alarmed. Two of its subsidiaries in Poland would be at risk were their contracts dissolved.

Yet the government is unmoved, claiming that its hands are tied by the ambitious timetable for liberalising European electricity. Once it phases out obstructive contracts, end-users should enjoy lower tariffs, and trading on the struggling Polish power exchange should soar. Foreign investors are unconvinced. They want to keep their contracts as insurance against likely delays or snags in deregulating Poland's energy market—not least those arising from the trade-union dominated coal industry, which supplies most of the fuel for generation. “Competition and contracts are not mutually exclusive,” insists Paul Amoravain, the head of EdF's operations in Poland. Some might consider that a bit rich coming from a state-owned monopolist, but most other disgruntled investors would agree.

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Employment agencies in Japan

Working harder

Jan 29th 2004 | TOKYO
From The Economist print edition

New opportunities as work changes

JOB hunters streaming into Hello Work, Japan's cheerily named state job-centres, are now a familiar sight. Once hugely proud of having the lowest level of unemployment among rich countries, Japan has watched the rate rise to more than 5% in recent years. Waves of corporate restructuring fuelled the trend. This, in turn, created growing demand for private outplacement services: industry revenues jumped by 45% to ¥320 billion ($3 billion) in the year to March 2003, 11 times higher than six years earlier. By contrast, corporate cutbacks dampened demand in the temporary-staffing industry.

Since last summer, the trend has reversed. As the latest round of restructuring came to an end, demand for outplacement services plunged, perhaps by as much as a third. This coincided with an economic upturn, which left consumer-electronics firms scrambling to meet demand, partly by hiring white-collar part-timers from temping agencies. Pasona, the largest such agency, said this week that its sales rose by 12% year-on-year, and net profits by 37%, in the six months to November 2003.

In March, deregulation will allow temping agencies to provide, for the first time, temporary blue-collar workers for, say, manufacturers needing extra factory-workers. Restrictions barring them from sending temporary workers into jobs that last more than a year will also be lifted.

Then there is the health ministry's latest blueprint for pension reform, which includes a plan to slash the number of weekly hours (from 30 to 20) a part-time worker can put in before his employer has to make pension payments on his behalf. Firms that rely heavily on part-timers, aghast at how much this will cost, are also complaining that it will generate lots of extra paperwork, which they may eventually outsource to temping agencies. “This has the potential to become 20 times larger than the temporary staffing market,” says Muneaki Ueda, the boss of Pasona.

Changing attitudes to work are also driving demand, adds Mr Ueda. Tired of commuting in packed trains, and of gruelling workloads, a growing number of 50-somethings want part-time, rather than full-time, jobs. For temporary agencies, who get a slice (on average around 13%) of a worker's wages as a fee, this is a lucrative trend, as older, skilled workers can get two-to-ten times the wages of younger folk. Some of the 3m baby-boomers set to retire around 2007 will also be looking for part-time work. But beware, says Yoji Tatsui, a director at the Japanese Trade Union Confederation. A similar phenomenon is taking place among younger workers as well, and could lead to a shortage of trained workers in the future.

Things are less happy for outplacement firms. Since most big companies have finished (for now) pruning their staff, demand for outplacement services is shifting to smaller firms, which cannot afford the hefty traditional fees. As a result, fees are already falling, perhaps by as much as 15% since last summer.

Still, with 3.3m unemployed workers, of which 1m have been “restructured” out of a job, there is room for growth in an industry that now caters to under 50,000 job-hunters, says Manabu Yorozu of Hu-Management Japan, the second-largest outplacement agency. The government is also under pressure to outsource some work done by Hello Work. So for some, there is an upside in the crumbling of lifetime employment and seniority-based pay, two old pillars of corporate Japan.

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Company reports

Real-time reality

Jan 29th 2004
From The Economist print edition

Why does it take firms so long to produce their annual results?

“THE market has given unusual attention to the report of the Deutsche Bank,” noted *The Economist* of March 5th 1904, “owing to the splendid results announced.”* This year the Deutsche Bank will announce its results (expected to be less than splendid) on February 5th. In a century the bank has speeded up the production of this vital piece of information by four weeks. Other German firms have persisted with 19th-century reporting schedules. TUI, a big travel group, has declared that it will not reveal its 2003 results until it holds its annual press conference on March 31st. That is much later than most German banks were reporting their annual profits a century ago.

Next to the snail-like TUI, big American firms look like accounting cheetahs (sic). America's biggest financial business and its biggest manufacturing firm—Citigroup and General Motors (GM), respectively—each produced their annual results this year on January 20th, within three weeks of the end of the reporting period. That is considerably less than the 90 days that firms are allowed by America's securities legislation to file Form 10-K, the document revealing their annual results.

But even the speed of American firms is by no means as impressive as it seems. For one thing, there has been little improvement for 20 years. In 1984, General Electric announced its results on January 17th, one day later than this year; the same year Citicorp (as Citigroup then was) came out with its results two days earlier than in 2004. Given the advances in information technology in the intervening decades, could corporate accounting departments have been expected to do better? Cisco Systems, one of the most advanced users of IT in America, is scheduled to produce its results for the quarter to January 24th on February 3rd. Given its enthusiasm for the “real-time enterprise”, should Cisco by now be coming up with its results on the day after the period to which they apply, if not on the day itself?

A real-time enterprise (RTE) has computer systems that are so intimately inter-linked that information flows among them almost instantaneously. Many firms are trying to set up such systems so that they avoid nasty shocks. GM is keen on the idea, to such an extent that its boss, Rick Wagoner, is said to know the firm's bottom line some two weeks before it is revealed to outside investors. Others, such as Wet Seal, an American retailer, are today gathering most cost and revenue data daily.

In “Heads Up” (to be published in April by the Harvard Business School Press), Kenneth McGee, a vice-president of Gartner, a research firm, describes a “large services company” whose fixed costs are so stable that it can predict its profits for the current quarter, within a 1% margin of error, on the basis of the number and type of customers in the early part of the quarter. Its boss is thus able to spot business icebergs well before they hit him. These days, says Mr McGee, “there is no such thing as a legitimate business surprise.”

Mr McGee's enthusiasm for RTEs comes from the power they give managers to anticipate problems. He also believes that by the end of this decade high-performing RTEs will be publishing their earnings per share on a daily basis. This, he claims, will give them a competitive edge in raising capital. Most accountants, however, remain sceptical. Baruch Lev, professor of accounting at New York University's Stern School of Business, points out that earnings figures are based on more than raw facts. They involve estimations and assumptions about things like losses from bad debts. Calculating those will always take time. So perhaps Citigroup will not, after all, announce its 2103 results any earlier than the third week in January 2104.

* “Since a week ago the annual statements of the remaining large banks of the city have been published. The market has given unusual attention to the report of the Deutsche Bank, owing to the splendid results announced. The dividend (11 per cent), it is true, is not increased, owing to the heavy amounts written off and carried to the reserves, but the net earnings of the bank show a large gain over 1902. These reached £1,215,350, being £183,700 more than for the previous year. From the earnings £181,500 is carried to the reserves, which now stand at £2,950,000, and £63,900 is written off on buildings. The total turnover for the year shows a further large gain, having amounted to £2,982,000,000, or £132,850,000 more than for 1902. The bank's quick assets are returned at £36,100,000, being an increase of £2,400,000; deposits and creditors at £39,450,000, or £3,500,000 more than at the end of 1902. The above are all record figures. Of the £2,785,000 in securities owned by the bank only £168,000 represents railway, bank and industrial shares, all the rest being in fixed interest-bearing paper. While the market had expected an increase of the dividend to 12 per cent, the report has made a most satisfactory impression.”

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Hollinger and corporate law

Out of control

Jan 29th 2004
From The Economist print edition

A new use for the poison pill

THE poison pill is one of the most egregious creatures of American corporate law. It exists to stop shareholders enjoying their full ownership rights by threatening, if triggered, to dilute the value of those shares in certain circumstances specified by a firm's board. They first caught on in the 1980s, when boards used them to deter hostile takeover bids—hostile, at least, to the board, though not necessarily to shareholders.

How strange, then, to find a poison pill being used (seemingly) in a good cause, against somebody who has (apparently) given many shareholders a lousy deal. This is the latest twist in the remarkable affair involving Hollinger International, a newspaper group, and its long-time controlling owner, Conrad Black. This week, Hollinger International's board launched a campaign, including the creation of a poison pill, to stop Lord Black selling control of the firm to the wealthy Barclay brothers.

Hollinger International's poison pill, if Delaware's chancery court declares it legal in the next few weeks, would spoil his deal by diluting the Barclay brothers' voting control down from 73% to 20%, meaning that they would not be able to stop the board of Hollinger International selling off the firm's assets, which include Britain's *Daily Telegraph*. Minority shareholders in Hollinger International reckon that their shares would be worth far more if the assets are sold than if control simply passes to the Barclays. This week they rebuffed a tentative offer from the Barclays to buy them out on terms similar to those offered to Lord Black.

Corporate lawyers will watch keenly what the court decides in this case. Hollinger International claims that Lord Black breached his fiduciary duties to other shareholders in several ways, especially by agreeing a deal that would undermine the firm's strategic review and auction of assets. It also argues that it has the right to use a poison pill to defend the interests of all shareholders.

Usually, poison pills are used to stop anyone getting a controlling stake in the first place, not to prevent existing control changing hands. Even if the Barclays win Lord Black's stake, minority shareholders may not be any worse off, making it hard to justify the poison pill.

Whether or not Lord Black was wrong to pay himself a fortune when he ran Hollinger International, should he be allowed to sell his controlling stake to whomever he wishes? These seem to be two separate issues. He must be hoping that the court sees it this way as well.

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Face value

This time, sorry may not be enough

Jan 29th 2004
From The Economist print edition

Shell

What, if anything, can Sir Philip Watts do to survive at Royal Dutch/Shell?

A HOSTILE mob of investors will greet Sir Philip Watts, chairman of Royal Dutch/Shell, on February 5th when he announces the Anglo-Dutch oil group's annual results. It will not be the profit number that interests shareholders most, but rather a planned 75-minute presentation showing how much crude oil the company has access to around the world. On January 9th, Shell shocked the financial markets and oil industry by downgrading nearly four billion barrels of its “proven” reserves to “probable”. At a stroke, this wiped one-fifth off a measure most observers use to value oil companies. The firm's shares dived.

Almost as infuriating to investors was the fact that the chairman was not there to deliver the bad news personally. Long regarded as aloof, brusque and disdainful in his dealings with the financial community—in sharp contrast to the genteel, diplomatic style of most of his predecessors—this no-show struck many as the final straw. Sir Philip's excuse, in an e-mail sent later to employees, was that this was essentially a technical adjustment, and that his presence would not have been useful since, being in a pre-results quiet period, he could not add any commentary. His e-mail did, however, concede that some people might think that this was a mistake.

Even some of Sir Philip's friends were shocked that this key figure was revealed to the market in such a summary fashion. They doubt that he can survive for the remaining 18 months of his term, fearing that no amount of apologising now—his advisers are working flat-out on a campaign combining explanation with fulsome apology at the results conference—can save him. His task is especially difficult, not only because this is by far the biggest downgrading of “proven” reserves ever by an oil firm, but also because the man in charge of exploration and production, known as the “upstream” end of the oil industry, when the reserves were overbooked as proven was, er, Sir Philip.

Still, even now, Sir Philip can take some comfort from the fact that the fulsome apology has a noble history within Shell, both as a technique for calming irate shareholders and for unleashing performance-enhancing reforms within the firm—which, for all its self-proclaimed expertise at sophisticated management and strategic planning, has made serious mistakes over the years.

In the mid-1990s, for example, Sir Philip's predecessor but one as chairman, Cor Herkstroter, was under fire for Shell's environmental record in Nigeria, highlighted by the Nigerian government's execution of

Ken Saro-Wiwa, an activist who had criticised the company. (In charge of business in Nigeria in the lead-up to this was, yes, one Philip Watts.) Mr Herkstroter was also attacked for ignoring for too long protests against Shell's plans to dispose of its Brent Spar offshore oil-rig in the North Sea. Apologising, Mr Herkstroter admitted that these were errors and attributed them to “technical arrogance”. (Shellmen, plus the occasional Shellwoman, typically exude a certain effortless superiority.) As evidence of his contrition, Mr Herkstroter launched Shell's policy of being proactive on environmental matters. Sir Philip, in turn, has won praise for putting “sustainable development” at the heart of Shell's business philosophy.

Can Sir Philip now echo Mr Herkstroter, by issuing a heartfelt *mea culpa* and setting in train some big reforms? One rival oil executive wonders if Sir Philip's strategy now is to get the bad news out of the way, clean the slate, take a hit on the share price and set the scene for progress. If so, it would be taking its inspiration from what happened in the early 1990s to Shell's great rival, BP. Its boss at the time, Sir Robert Horton, accumulated huge debts to invest heavily in new oil fields in the belief that the oil price would soon soar. When it failed to do so, BP's board fired Sir Bob, and his replacement David (now Lord) Simon reined back spending to cut debt. BP was thus in good shape to take a leading part in the great oil-industry consolidation, snapping up Amoco and Arco in America and Burmah Castrol in Britain.

Shell, by contrast, came late to the consolidation game. When it bought another British energy firm, Enterprise, two years ago, most analysts thought it overpaid. Some observers have attributed this to Shell's odd ownership structure, and the culture it spawns. Sir Philip has been trying to modernise this, and perhaps this could be his saving grace.

You can hear the sea-change

The company is a 60:40 amalgam of Royal Dutch Petroleum and Shell Transport and Trading, which together own the many Shell operating companies around the world. Admirers say that this generates a need for consensus decision-making which is well-suited to a firm with a 50-year horizon, and that although decisions may take longer to reach, broad agreement usually results in quicker and better execution. But a growing number of critics reckon that the firm's governance structure belongs to the era of their 1907 merger, when Royal Dutch was an imperial presence in Asia and Shell was trading sea shells and paraffin. It has two separate boards of directors; at group level, Sir Philip is technically only the chairman of a committee of six group managing directors, not a command-and-control boss.

The dodgy reserves figures are themselves evidence of the weakness of Shell's governance structure. The firm did not have a consistent global process for categorising and measuring reserves; each business used its own approach. Sir Philip started a review of processes, aiming to produce a uniform system. This led to greater rigour being applied and, then, to the downgrade. BP and others have had global processes for the past 15 years. It may be that what Shell now needs most is a modern, integrated governance structure for the Sarbanes-Oxley era. Delivering it may be just the project to keep Sir Philip in his job—though, to succeed, he will have to challenge directly the corporate culture that many insiders believe made Shell great.

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Microsoft

Sir Bill and his dragons—past, present and future

Jan 29th 2004
From The Economist print edition

Having survived a gruelling battle with America's trustbusters, Microsoft now faces a showdown in Europe. Meanwhile, another battle looms on the horizon

Get article background

THE announcement this week that Microsoft's founder, Bill Gates, is to receive an honorary knighthood from Britain's Queen Elizabeth II seems fitting. For Bill Gates KBE (only British citizens can take the honorific “Sir”) combines knightly philanthropy on an unprecedented scale with a long and impressive combat record. Over the years he has seen off numerous competitors, parrying attacks from all sides and always, somehow, emerging victorious. Microsoft's most notable success—its establishment, with its Windows software, of a monopoly in desktop operating systems—has led to its fiercest battles of all, as antitrust regulators have accused it of abusing its dominant position.

The story of the company's epic legal battle with America's Justice Department and 18 states has passed into legend. In 2000, Microsoft was found guilty of illegally exploiting the dominance of Windows (which is installed on over 95% of PCs worldwide) to gain market share for its web browser over Netscape's rival product. The company was ordered to be broken up. But the decision was reversed on appeal and a far milder punishment, in the form of restrictions on Microsoft's behaviour, was applied instead. The case still produces occasional rumbles, like the death-rattle of a mortally wounded dragon, but it no longer poses a threat to the company's survival.

Now Microsoft is heading for a showdown in Europe where, once again, the company is accused of exploiting its Windows monopoly to take control of adjacent markets, this time in media-player and server software. Intensive negotiations with the European Commission have been under way since the end of last year in an attempt to reach a settlement, though so far without success. A draft ruling against the company, believed to call for the imposition of a $300m-500m fine, along with other remedies, is now said to be circulating within the commission. “The time has come for the commission to reach a conclusion,” says Amelia Torres, a spokeswoman at the competition directorate. “This investigation has been going on for a very long time.”

The European case is particularly important because it concentrates on Microsoft's behaviour since the imposition of the American settlement, which is widely perceived to have had little effect. At stake, therefore, is the question of whether Microsoft will once again face remedies that treat only narrow instances of past misbehaviour, or if regulators will insist on sanctions that try to eliminate the potential for anti-competitive practices in future.

Both sides are well aware that the outcome could affect the way in which software is developed and sold, as well as the way in which consumers use it. The decision will certainly influence the way in which future antitrust complaints are judged. As it happens, this week Microsoft fired the first arrow in a battle that is widely seen as just such a future antitrust action: its fight with Google over control of the internet-search business.

Objections, your honour

The commission's case against Microsoft is detailed in a confidential document, known as the “Statement of Objections”, the most recent version of which has been seen by *The Economist*. The document, drawn up last August, builds on two previous statements (in 2000 and 2001) which accused Microsoft of behaving anti-competitively in two areas.

First, the commission alleged that Microsoft was trying to extend its desktop monopoly into the market for workgroup servers (file, print, mail and web servers) by keeping secret the communications protocols that enable its desktop and server products to talk to each other. “Without such information, alternative server software would be denied a level playing field, as it would be artificially deprived of the opportunity to compete with Microsoft's products on technical merits alone,” the commission warned in 2001.

Second, Microsoft was accused of trying to extend its monopoly into the media-player market, by incorporating its Windows Media Player (WMP) software into Windows, so ensuring that it would be installed on over 95% of new PCs. Rival products, the commission observed, did not have this advantage; nor could WMP be uninstalled. “The result is a weakening of effective competition in the market...and less innovation,” it concluded.

The latest document bolsters these claims. It uses new evidence from updated market shares to illustrate how Microsoft's server and media-player have advanced at the expense of rivals. Compared with the drama of the American antitrust action, which included an infamous videotaped deposition from Mr Gates and evidence culled from internal Microsoft e-mails, this is dull stuff. But it does confirm that Microsoft is exploiting its desktop dominance in workgroup server software; and that, by “tying” WMP to Windows, it has overtaken its chief rival in the media-player market, RealNetworks.

Particularly damning are the comments from providers of media content. They say that the cost of supporting different media formats (when providing video clips on a website, for example) leads to a “winner takes all” market which it is difficult for a new media-player, no matter how innovative, to enter. The argument that the efficiencies derived from incorporating WMP into Windows outweigh the anti-competitive effects is dismissed. The commission tellingly observes that the incorporation of WMP in Windows “sends signals which deter innovation” in any technologies which Microsoft could conceivably tie with Windows in the future.

Accordingly, a number of remedies are proposed. The simplest is a fine that reflects the “gravity and duration” of the infringement. European antitrust law allows violators to be fined as much as 10% of their annual worldwide revenues—a fine of more than $3 billion in Microsoft's case. In addition, Microsoft would be required to license its server-communications protocols to rivals on a “reasonable and non-discriminatory” basis. This is consistent with the settlement that Microsoft reached in America, which also requires it to license some of its protocols.

Following a review of the progress of the American settlement, on January 23rd Microsoft agreed to simplify and extend its licensing programme to encourage wider use. Critics had complained that its previous licensing terms were so complicated that only 11 companies had signed up for them. After the announcement, Judge Colleen Kollar-Kotelly, who is overseeing the American settlement, declared herself satisfied with the company's efforts to comply with the settlement.

Far more controversial, however, is the remedy proposed by the commission to address the tying of WMP to Windows. It suggests two alternatives: one forcing Microsoft to “untie” the two products and produce a version of Windows without WMP; the other a “must-carry” approach, which would require Microsoft to include its leading rivals' media-player software with every copy of Windows.

Untying the Gordian knot

The crux of the matter is, can Microsoft lawfully integrate other pieces of software into Windows? This was also, of course, at the heart of the American action. In that case it was the web browser, rather than the media player, that was under consideration, and Microsoft was found guilty of illegally exploiting its monopoly by tying its web browser to Windows. It was to prevent similar behaviour in future that the original judge, Thomas Penfield Jackson, ordered the company to be split in two. One company would control Windows, and the other the application software (such as web browsers, media players and office-productivity software). Microsoft would thus be deprived of the ability, conferred on it by its Windows monopoly, to dominate new markets.

However, the break-up remedy was overturned on appeal, and the final settlement declared that “the software code that comprises a Windows Operating System product shall be determined by Microsoft in its sole discretion.” Moreover, it did not require Microsoft to remove its web browser from Windows, freeing the company to add other software elements to its operating system.

By adding WMP to Windows, Microsoft is doing exactly that. But is it legal? The company argues that support for the playing of audio and video is part of the core functionality of Windows. Furthermore, it points out that PC-makers are, in the wake of the American settlement, entitled to install media players made by other firms alongside WMP. Hewlett-Packard, for example, recently struck a deal to include Apple's iTunes music software on its new PCs. But such deals are the exception, not the rule. In December, RealNetworks filed its own $1 billion antitrust suit against Microsoft, complaining that tying WMP to Windows was squeezing it out of the media-player market, just as Netscape was squeezed out of the web-browser market.

Short of a break-up, however, there is no effective antidote to tying. Forcing Microsoft to produce a Europe-specific version of Windows without WMP (or any other specific features) would, in effect, impose an inferior product on European consumers. It is difficult to argue that this would be in their interests. And it would, in any case, probably result in a grey market as the full version of Windows was imported from elsewhere. There are also problems with the must-carry approach: which other media players would be included? Presumably those with the greatest market share. But that would itself be anti-competitive, since it would entrench the positions of the existing players. Furthermore, WMP would still be ubiquitous.

Outwardly, the gulf between Microsoft and the commission in their argument over whether the inclusion of WMP in Windows constitutes illegal tying seems unbridgeable. Last November, three days of closed hearings held in Brussels served only to entrench the two sides' positions further, according to people familiar with the case.

But both sides would now probably prefer to settle. Microsoft would like to establish a consistent regulatory framework in order to prevent an endless succession of legal battles as it adds more and more new features to Windows. “We want to find a solution that we can apply to future situations, that can be generalised in other situations,” says John Frank, Microsoft's deputy general counsel.

The commission also seems keen to settle things quickly, having stepped up the legal pace considerably since last August. The number of commissioners will increase from 20 to 30 in May, when ten new member states join the EU; one theory is that the new commissioners will have a more pro-American bent and will be less willing to endorse an anti-Microsoft decision. In any case, the commission has previously expressed a desire to conclude the case before the naming of a new commission president in June.

Reading between the lines, it is just possible to discern the kind of settlement that might now be under discussion: a far wider licensing programme, perhaps one that confers special privileges on companies (such as RealNetworks and Apple) that develop software which competes with parts of Windows. But the devil would be in the details: such a deal might prove to be no more than a grand gesture, allowing the commission to declare victory and then retreat. Microsoft has, after all, shown itself to be a master at running rings around regulators. That said, the commission's Statement of Objections pre-emptively disallows a number of ways in which Microsoft could evade the proposed tying remedies—which suggests that the commission has learned from past regulatory experiences.

If no agreement is reached, however, and the expected negative ruling is issued, probably in March, Microsoft will appeal. The case will go first to the Court of First Instance in Luxembourg and then (assuming Microsoft loses again) it would move to the European Court of Justice. But all that would take years. Microsoft's enthusiasm for some kind of early settlement to insulate it from further antitrust action is influenced by the appearance of a third dragon on its horizon. For the firm is currently gearing up for a battle with a new and vigorous competitor: Google.

Here we Google again

Google dominates the internet-search business, much as Netscape once ruled in web browsers and RealNetworks did in media players. Begun as a research project by two graduate students in 1998, Google today carries out more than 200m searches a day and is estimated to have had revenues of $1 billion last year, mainly from advertising revenue.

It is the most visited search site, accounting for 35% of search-engine visits—compared with 28% for Yahoo!, 16% for AOL and 15% for Microsoft's MSN, according to comScore Networks, a market-research company. But that masks its true influence. Google's technology is used to power searches on other sites, such as Yahoo! and AOL (though Yahoo! plans to use its own technology soon). Taking this into account makes Google responsible for around 80% of all internet searches. The company is now preparing for a stockmarket flotation in the next few months.

Google's power makes it just the sort of company that Microsoft typically tries to squash. At the World Economic Forum in Davos last week, Mr Gates admitted that Google's search technology was “way better” than Microsoft's, and identified internet search as a key focus for his company. Microsoft already offers searches through MSN, its web portal. But until this week it had yet to play its trump card: exploiting its dominance of the web-browser and operating-system markets to extend the reach of its search service. That changed on January 26th when it launched a “toolbar” plug-in for its Internet Explorer browser, enabling instant searches (via MSN) from any web page. It is an imitation of Google's toolbar, which has helped to contribute to the search engine's success: on a computer screen, as with real estate, location is everything.

Initially, the MSN toolbar is a free optional download, as Microsoft's web browser and media player once were. The next step, inevitably, will be to integrate such search functions into Windows, on the grounds that it constitutes a core technology that should be part of the operating system. In his keynote speech at last November's Comdex show in Las Vegas, Mr Gates demonstrated a prototype technology called “Stuff I've Seen” which does just that. It allows computer users to search for context-specific words in e-mails and in recently visited web pages, as well as in documents on their computers.

In other words, Microsoft is preparing to use its dominance in web-browser and operating-system software to promote itself in yet another separate market—search engines this time—at the expense of competitors. Is that tying? It is entirely possible that, in a few years, the same arguments heard in the American and European cases will again be raging, unresolved. Microsoft will insist that it has done nothing wrong, as competitors cry foul and wizened regulators launch further investigations.

Indeed, the European competition authorities are not the end of the line. Regulators in Brazil and Israel are sharpening their pencils, and Microsoft also faces several outstanding civil lawsuits. The accusation, in each case, is abuse of its Windows monopoly. Will it never end?

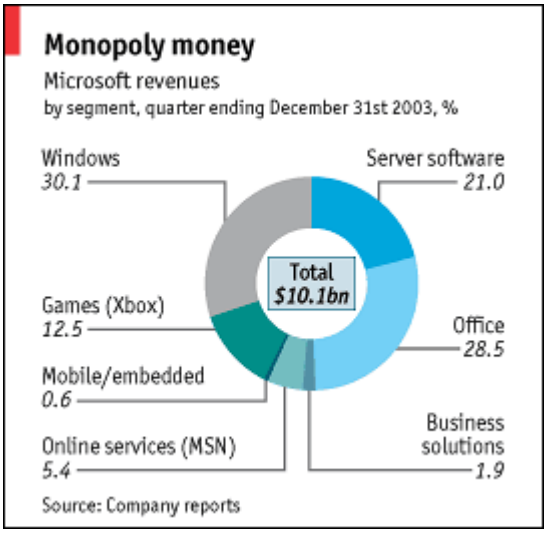
Death by a thousand cuts

Microsoft's transatlantic legal woes began a decade ago. In July 1994, America's Justice Department and the European Commission issued rulings in tandem. They were designed to prevent Microsoft from abusing its dominant market position by licensing Windows to PC-makers on terms that discouraged them from selling PCs with rival operating systems. (Microsoft's contracts with PC-makers required them to pay it for a copy of Windows for each PC sold, even for PCs that were sold with other operating systems, or with no operating system at all.)

There were arduous negotiations. But the remedies, which narrowly addressed the results of the anti-competitive behaviour, ignored treating the underlying cause: the monopoly. Then, as now, regulators stopped short of imposing serious behavioural or structural remedies. So the legal battles have continued ever since.

Ten years on, Microsoft has come to a critical juncture. It can choose to continue its war of attrition with regulators, constantly testing the legal limits and, when it crosses them, treating the consequences as the cost of doing business. Or the company could throw off its monopoly mindset and decide to compete, like most other firms are forced to do, solely on the merits of its products.

One approach would be to hand some of its Windows protocols over to an independent standards body. This seems unlikely at the moment, particularly given the lucrative nature of the Windows monopoly—Microsoft has just reported record quarterly revenues of over $10 billion (see chart), and much of that is due to Windows. But the company, which already licenses certain protocols to rivals to build inter-operable products, could choose to act as a “common carrier” and license its technology to produce a new revenue stream. Indeed, Microsoft's actions in complying with the American settlement arguably point in just this direction. A European settlement might push it even further that way.



Another factor that might tip the balance is the rise of the open-source operating system, Linux. This is not much of a threat to Microsoft's desktop monopoly, which currently seems secure. Rather, its menace comes from the fact that governments in particular have been early adopters of the open-source system. It is difficult for Microsoft to argue that it is a responsible partner and supplier to governments on the one hand, while doing battle with regulators on the other. So the advance of open-source software in government could have a disproportionate impact.

In other words, Microsoft may some day conclude that the costs of constant regulatory battles—legal costs, fines, bad publicity, and bad relationships with governments—exceed the benefits of its Windows monopoly. This seems unimaginable now. But unless governments find the political will and legal arguments needed to break the firm up, it may be the only way its legal battles will ever end.

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Corporate tax

A taxing battle

Jan 29th 2004
From The Economist print edition

Governments around the world are scrabbling for scarce corporate taxes

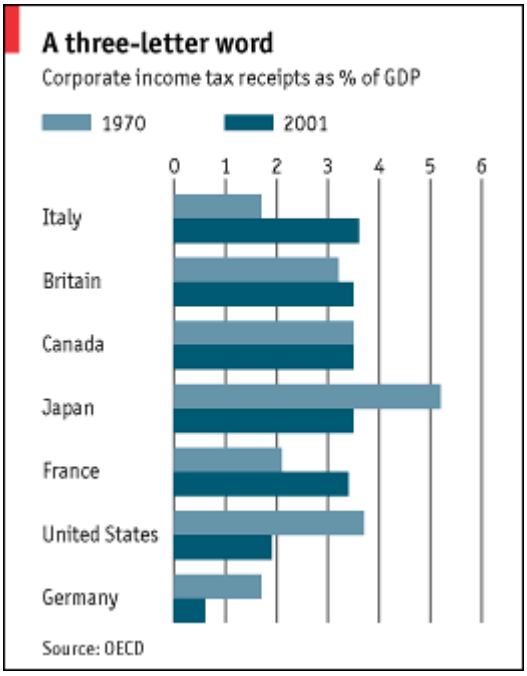
NOBODY wants to pay taxes. No wonder, then, that so many companies spend so much effort trying to avoid them. Almost every big corporate scandal of recent years, from Enron to Parmalat, has involved tax-dodging in one form or another. In the latest revelation on January 26th, Dick Thornburgh, the man appointed to look at the collapse of WorldCom, released a report claiming that, as well as the slew of other crooked dealings of which the bankrupted telecoms company is guilty, it also bilked the Internal Revenue Service (IRS) of hundreds of millions of dollars in taxes through a tax shelter cooked up by KPMG, its auditor.

Tax authorities around the world rightly fret that such cases are the tip of a large iceberg, and they are starting to act. In America, home to many of the best-known corporate-tax scams of recent years, the Bush administration has announced a series of anti-tax-dodging measures in its new budget, which will be presented to Congress on February 2nd, including an extra $300m to boost enforcement and the shutting of corporate-tax dodges that could bring in, it reckons, up to $45 billion over the next ten years.

But the IRS was becoming stroppier even before these measures. In early January, it slapped GlaxoSmithKline, a big British drugs company, with a $5.2 billion bill, claiming that Glaxo Wellcome, its predecessor, underpaid taxes on profits made in America from 1989 to 1996. Even though Glaxo had paid taxes on its profits in Britain, and although there is a “double-taxation” agreement between Britain and America, which means that a company should not have to pay tax on the same profits in both countries, the IRS decided that much of this profit had, in fact, been made in America. GlaxoSmithKline is to fight the tax bill in court.

Whatever the outcome of that case, the company's woes, and the prospect of being taxed twice on the same profits, have sent a shiver through the tax departments of multinationals everywhere. A tax partner at one big accounting firm says that “transfer pricing” is the biggest worry for tax directors at the overwhelming majority of big companies. Disputes between multinationals and tax authorities have been rising anyway, according to tax experts at the accountancy firms that are often embroiled in them. The IRS has showed that it is upping the

stakes further.



Many of these disputes, which rarely see the light of day, occur over transfer pricing. This is the method used by multinational firms to value goods and services bought and sold among subsidiaries, and is a big determinant of the profits booked—and thus taxes paid—in a given country.

Two trends show the increasing rift between companies and the tax authorities. The first is a spike in so-called “advance pricing agreements” (APAs). In these, tax authorities and a nervous multinational essentially agree on its transfer-pricing methodology. Even though these are cumbersome and time-consuming, by March last year the IRS had signed 434 such agreements since the first one in 1991, and their number has surged in recent years: in 2002, the IRS signed 87 APAs, 40% more than two years earlier.

The second revealing trend is the way in which the big accounting firms are beefing up their transfer-pricing departments. In Britain alone, the combined numbers employed by the four-biggest accounting firms in transfer pricing has tripled in recent years, even though their clients have themselves also been employing more people to deal with tax issues.

A global headache

These spats demonstrate a growing unease among governments that the obvious benefits of a globalising economy come with a high price: a loosened grip on the companies that increasingly can and do shift their employees, know-how, capital and even headquarters overseas—and with them their taxable profits.

Put simply, multinationals are becoming more, well, multinational. According to UNCTAD, a United Nations agency, in the early 1990s there were 37,000 international companies with 175,000 foreign subsidiaries. By last year, there were 64,000 with 870,000 subsidiaries. Increasingly, such companies are being managed on regional or even global lines, not national ones. An extraordinary 60% of international trade is within these multinationals, ie, firms trading with themselves. Many have global brands, global research and development, and regional profit centres. The only reason for preparing national accounts is that tax authorities require it. But it is hard to say quite where global firms' profits are generated.

Governments have responded to this fluidity partly by reducing their corporate-tax rates. According to KPMG, a big accounting firm, OECD countries cut corporate-tax rates by nearly seven percentage-points between 1996 and 2003. Some have cut aggressively. Ireland slashed corporate-tax rates by some 23 percentage points over the same time period, and attracted much foreign investment as a result—to the fury of fellow EU members.

Countries have also built ever-higher barricades of complex rules to retain what they see as their fair share of corporate profits. And rich countries are not alone in doing this. In recent years, India, Thailand and other developing countries have added their own transfer-pricing regulations to the existing jumble.

Navigating this mishmash of regulations is no easy task. Transfer prices are very tricky. Most countries set them at “arm's length”—ie, the price an independent party would pay for a given service or product. Though the principle is a nice one, the practice is complicated, particularly because companies are increasingly service-oriented and rely more on brands, intellectual property and other hard-to-price intangibles. The issues raised by transfer pricing can thus be dauntingly philosophical. “You are dealing with fundamental questions, such as what creates value,” says KPMG's Ted Keen. “And the answer is different every time.”

The quarrel between GlaxoSmithKline and the IRS, for instance, revolves around what made Zantac—its hugely profitable ulcer drug—so valuable. Was it the money poured into research and development in Britain, or the advertising and marketing in America? Clearly, both were factors, but deciding how much was contributed by whom, and thus how to divvy up costs, profits and taxes is hard.

Of course, transfer pricing is open to manipulation. A report by America's Senate in 2001 claimed that multinationals evaded up to $45 billion in American taxes in 2000. Whatever the truth of this claim, some of the report's details were eye-catching: one firm sold toothbrushes between subsidiaries for $5,655 each.

Moreover, there is a mound of evidence, says James Hines, a tax expert at the University of Michigan, that shows that international companies tend to report higher taxable profits in countries where taxes are lower. Yet, as he says, this is not necessarily illegal or bad. Companies owe it to their shareholders to avoid paying unnecessary taxes. The trouble is that one person's abuse is another's smart planning. And the tension between those two views is likely to increase.

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Martha Stewart

The Marthathon

Jan 29th 2004 | NEW YORK
From The Economist print edition

An American icon goes on trial

AP

FANS in Lower Manhattan of the lifestyle guru Martha Stewart now have to watch her daily home-making show at two in the morning. But they get to see more of Ms Stewart herself than ever. Her regular show has been relegated to the middle of the night to make way for the extravaganza coming from Manhattan's local federal courthouse in Foley Square: *United States of America v Martha Stewart and Peter Bacanovic* (her stockbroker). After a protracted search to find a dozen jurors who had not already formed an unshakable opinion about Ms Stewart, the case finally began on January 27th. It promises much.

The media frenzy before the trial has been entertaining enough. Coverage of every conceivable angle has been, in the Martha way, lavish. Television cameras that do little more than record Martha's comings and goings are camped within a newly erected, tasteful white marquee outside the courthouse. Because the press was barred from attending jury selection, coverage focused on Martha's shoes, handbags, the colour combinations of her coat and scarf, and whether her sartorial choices would sway a verdict.

The case is important as much for what the trial is not, as for what it is. She is not charged with insider trading because, says Jonathan Macey, a professor of law at Cornell University, under American criminal law Ms Stewart is, oddly, not an insider, even though she allegedly took advantage of inside information. In other regulatory regimes she could have been prosecuted for that offence. But because she was not employed by the company in whose stock she traded, she was not an “insider”.

Hence the SEC has instead charged her with obstruction of justice and making false statements over her sale, in December 2001, of shares in ImClone, a drugs firm that was on the verge of announcing rotten news. Her broker, prosecutors allege, gave her a steer about heavy sales of shares in ImClone by Samuel Waksal, then the company's chief executive, but now in jail for violating insider-trading rules. He, at least, qualified as an insider.

After proclaiming her innocence, Ms Stewart is also charged with defrauding the investors in her own company because, if convicted, they would lose her services. This charge is both novel and truly strange. If successful, it will presumably be levelled against any important employee who falls foul of the law. Still, whatever the merits of the legal case, and they are not obvious, they pale in the popular imagination in comparison with the sport of watching the mighty brought low by that rarest of commodities: reliable information from a Wall Street broker.

Ms Stewart's celebrity is, of course, entirely the point. She has been singled out as a symbol for all that was wrong in the stockmarket bubble, but that may not have made her activities illegal, a fact that did not escape Robert Morvillo, her lawyer. As Mr Morvillo put it: there will be no witness to say that she did anything unlawful. Whatever its thoughts about Ms Stewart personally, a jury may have trouble believing that a cover-up is wrong if the inspiration for it was not a crime.

And if Ms Stewart bounced back, and she is tough, hers would not be the only reputation to be resurrected. After Ms Stewart had sold ImClone's shares at $60, they fell to less than $6 in the summer of 2002. Since then they have rebounded to $43 because of the promise of Erbitux, the drug whose previous setback before the Food and Drug Administration (FDA) prompted Mr Waksal to dump his

holdings. The drug will come again before the FDA next month. A hot tip on what it might say would be worth a fortune. But not, one assumes, to Ms Stewart.

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Germany on trial

Bankers!

Jan 29th 2004 | DUSSELDORF
From The Economist print edition

Glum prosecutors lose their grip

AP

Josef's time off for good behaviour

THE protagonists, in what has been billed as the greatest trial in German corporate history, could hardly be more ill-matched. A phalanx of famous defence attorneys proclaim confidently, while three little-known state prosecutors mumble dryly from their charge sheets. This Wednesday's session ended in a slanging-match between defence and prosecution lawyers. The courtroom clash has echoed through Germany, prompting comments about arrogant, unrepentant bankers from one side, and concern about envious prosecutors doing untold damage to the country's business image from the other.

Six former senior officials of Mannesmann are accused of committing or abetting breaches of fiduciary trust when the firm was taken over by Vodafone in February 2000. Among the accused are Josef Ackermann, head of Deutsche Bank, and Klaus Esser, former boss of Mannesmann.

After one of the world's biggest takeover battles, Hutchison Whampoa, a large shareholder in Mannesmann, wanted to give Mr Esser an extra “appreciation award” for raising the company's value. That would have been illegal, since such a discretionary award would have had to be made by Mannesmann itself, Mr Esser cautioned. So another way was found to reward Mr Esser, ultimately with the approval of the supervisory board, and of the new acquirer, Vodafone.

The case hinges on how Mannesmann's compensation committee, on which Mr Ackermann and three other defendants sat, approved the award and other bonuses totalling €55m ($70m), to other Mannesmann executives. Embarrassingly, the retiring head of the supervisory board and a member of the committee, Joachim Funk, was voted a bonus too.

The chances are that the trial will be shelved at some stage for lack of evidence of serious criminal intent, say lawyers unconnected with the case. Mr Ackermann would love his lawyers to negotiate a deal, with no admission of guilt, so that he can run his bank full time. But Mr Esser, a lawyer by training, has already spent five hours arguing the impossibility of his guilt. Even before the trial, he successfully sued the prosecutors for defamation.

The question remains whether the case will shed much new light on German law and the fuzzy concept of breach of trust. In British or American takeovers, shareholders can easily sue if they feel that any other shareholders, including company directors, have been especially favoured. In Germany, the interests of the whole company, rather than its shareholders, are seen as paramount. In the case of Mannesmann, it is difficult to see what damage the €55m extra bonuses could have done to a company which was sold for €180 billion. But in coming weeks prosecutors will be trying to show otherwise.

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American interest rates

Easy money

Jan 29th 2004
From The Economist print edition

Is America's Federal Reserve running risks with inflation?

THE Federal Reserve left its key interest rate unchanged at 1% this week, and said it could still afford to be "patient" before raising rates. Although many economists do not expect the Fed to increase interest rates until next year, others argue America is now growing at such a clip that the Fed needs to touch the brakes to prevent inflation taking off again.

As growth has picked up, so has the talk about inflation. Figures due on January 30th were expected to show that, although GDP growth slowed in the fourth quarter, the economy still expanded at an annual rate of around 4%, and most pundits expect it to grow at about this rate for the rest of the year. Booming commodity prices and a weakening dollar (which could push up import prices) also argue for a pre-emptive rise in interest rates.

But concerns that inflation is about to pick up are probably overdone. For one thing, inflation is currently too low. Over the past 12 months America's core consumer-price index (ie, excluding food and energy) rose by only 1.1%, and the Fed's favourite measure of inflation, the core personal consumption expenditure deflator, by only 0.8%—the smallest rise in the 45-year history of that index. This is well below most estimates of the Fed's desired rate of inflation of 1.5-2%. So the Fed would be happy if inflation rose a bit.

On present trends inflation could even fall further. Inflation is not driven by the rate of growth, but by the amount of slack in the economy. When output is below its potential, inflation tends to fall even if growth is brisk. Goldman Sachs estimates that America's GDP growth is still almost two percentage points below its potential.

There is more evidence of slack in the labour market, where weak demand for new workers is helping to hold down wage growth. Average wages have risen by only 2% over the past year and are unlikely to pick up by much until the unemployment rate, currently 5.7%, falls to 5%. Meanwhile, productivity has surged by 5% over the past year, resulting in a sharp drop in unit labour costs (see chart). This is another reason to expect inflation to edge lower over the next year.

The falling dollar is a risk, it is true, but it has yet to have an effect: import prices have been broadly flat over the past year. One reason is that, although the dollar has fallen sharply against the euro, its broad trade-weighted value has fallen by only 8% over the past 12 months. Movements in currencies also tend to have less impact on inflation in America than elsewhere, partly because it imports less. Nevertheless, a further sharp fall in the dollar would eventually feed through into inflation.

Ben Bernanke, a governor of the Federal Reserve, has argued that there is no need to raise interest rates until inflation starts to rise. He may be right about consumer-price inflation. But there is a big risk that the current "easy money" policy is spilling over into inflation in the price of shares and houses.

Not only does this risk creating another bubble, but rising asset prices are encouraging already over-indebted households to borrow yet more to invest in already-pricey assets. Total household debt rose by 11% in the year to the third quarter of 2003, more than twice as fast as incomes. In a new report

Andrew Smithers, a London-based economist, argues that American share prices are at least 60% overvalued. House prices also look alarmingly high.

The debate about whether the Fed should worry about booming asset prices when inflation is low is therefore likely to hot up again in coming months. A big difference between today and the bubble of the late 1990s is that inflation is now even lower, so the risks of deflation are greater if the Fed gets monetary policy wrong.

The Fed's dilemma is simple. It needs to keep monetary policy loose to prevent inflation falling. Yet by holding interest rates low it may be fuelling an asset bubble, which when it bursts could make deflation even more likely since there is much less room for fiscal and monetary stimulus than after the bursting of the previous one.

Monetary policy is extraordinarily loose. An old rule of thumb is that when interest rates are lower than the rate of growth in nominal GDP, monetary policy is expansionary. Nominal GDP has grown by 6% over the past year, well above the 1% rate of interest. A small rise in interest rates would still leave monetary policy very loose. But it would give a warning to investors in shares and houses that the good times cannot last forever.

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Japanese banks

Another shock

Jan 29th 2004 | TOKYO
From The Economist print edition

Investors' confidence in banks still looks shaky

THERE was another rout in Japanese bank shares this week, after the *Nihon Keizai Shimbun*, the country's most influential financial newspaper, reported that Japan's banking regulator was planning a probe into loan records at UFJ, the fourth-largest bank. The Financial Services Agency (FSA), said the paper, acting on a tip from a whistle-blower, had discovered documents that showed a large number of UFJ's borrowers, including several big ones, were in worse shape than the bank had told regulators. Another inspection due to start later this month could force UFJ to increase reserves, leading to yet more losses, warned the paper.

When stockmarkets re-opened on January 26th, UFJ's stock plunged by 12%, dragging other bank shares down with it. That the FSA said nothing left investors perplexed and worried. Though the bank denied the reports, it postponed a planned issue of subordinated bonds with which it was to strengthen its capital.

The news shook investors who had been piling into bank stocks since last May, when the government rescued Resona, the fifth-largest bank. Investors believed the bail-out signalled that the government would not let any of the top four banks fail. Moreover, rising stockmarkets have helped banks, which hold lots of shares; official figures suggested that the bad-loan numbers were falling; and banks reported sharp rises in profits in the first six months of the year. Many investors were convinced that the worst was over for Japan's banks.

Not all the news is bad. A central-bank survey of how keen banks think companies are to borrow turned positive for the first time in 39 months, though the outlook was still fairly grim, and actual loans fell in December, for the 72nd month in a row. And given banks' previous form, investors are still nervous—hence the speed with which they dumped bank stocks (though these recovered a bit the following day).

There may be more uncertainty to come. Special inspections of banks are expected next month. If past experience is a guide, a more rigorous implementation of FSA guidelines can mean big swings in credit costs and bad loans, usually upwards. Further tightening of accounting rules, which are notoriously flexible and which are due to be tightened up next year, may cause more unpleasantness.

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Central European interest rates

The Balcerowicz effect

Jan 29th 2004 | WARSAW
From The Economist print edition

Poland's central-bank governor has been a huge success

TAKE two medium-sized countries in central Europe. Both will join the European Union in May. Both have spendthrift socialist governments. Both expect a fair rate of GDP growth this year. Both expect budget deficits of about 5% of GDP. Both want to join the euro in four or five years. But one of them, Hungary, is wrestling with interest rates more than seven percentage-points higher than the other, Poland. What has Poland got right, or Hungary got wrong, in the eyes of the markets?

Part of the answer is monetary policy, and the way it has been communicated. The nine ordinary members of the Polish central bank's monetary policy council can look back proudly on their work as they step down this month and next, their six-year terms at an end. So too can their chairman, Leszek Balcerowicz, the central-bank governor, whose term runs until 2007.

Four years ago Poland floated its currency, the zloty, saying that the foreign-exchange markets could decide its value. The central bank has concentrated its efforts on keeping interest rates just high enough to quash inflation, and resisting pressure from politicians to loosen up. The result has been a fall in inflation from 10.1% in 2000 to 0.7% in 2003. The zloty has weakened gently, bringing joy to Polish exporters. It should strengthen now, as the economy picks up, though some buffeting may intervene if investors react sceptically to the half-hearted new austerity plan which the government approved in principle this week.

Hungary's central bank has attempted more, but achieved less. It has tried to hold the exchange rate of the national currency, the forint, within a narrow but moveable band against the euro, but has pursued inflation targets at the same time. And it has weakened its standing by squabbling unsuccessfully and sometimes publicly with the government over economic policy.

Against a background of yawning deficits on the budget and the current-account, the central bank pushed rates up three times last year, to support the currency. Defenders of Zsigmond Jarai, Hungary's central-bank governor, would say he has done his best in difficult conditions. Few would dispute that Mr Balcerowicz has done better.

The latter's hawkish presence alone has probably come to be worth a couple of percentage points off Polish interest rates—or a billion euros a year, since Poland has 250 billion zlotys ($66.5 billion) of domestic debt. The incoming monetary-policy committee members, chosen by the two houses of parliament and the president, are reckoned more doveish than their predecessors. But they will have to be persuasive indeed if they hope to out-argue their chairman.

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Economics focus

Signifying nothing?

Jan 29th 2004
From The Economist print edition

Too many economists misuse statistics

FIGURES lie, as everyone knows, and liars figure. That should make economists especially suspect, since they rely heavily on statistics to try and resolve a wide range of controversies. For example, does a rise in the minimum wage put people out of work? Are stockmarket returns predictable? Do taxes influence whether a company pays dividends? In recent years, helped by cheaper, more powerful computers, and egged on by policy-makers anxious for their views, economists have analysed reams of statistics to answer such questions. Unfortunately, their guidance may be deeply flawed.

Two economists, Deirdre McCloskey of the University of Illinois, and Stephen Ziliak of Roosevelt University, think their colleagues do a lousy job of making sense of figures, often falling prey to elementary errors. But their biggest gripe is that, blinded by statistical wizardry, many economists fail to think about the way in which the world really works.

To be fair, statistics can be deceptive, especially when explaining human behaviour, which is necessarily complicated, and to which iron laws do not apply. Moreover, even if a relationship exists, the wrong conclusions can be drawn. In medieval Holland, it was noted that there was a correlation between the number of storks living on the roof of a house and the number of children born within it. The relationship was so striking that, according to the rules of maths that govern such things, you could say with great confidence that the results were very unlikely to be merely random. Such a relationship is said to be “statistically significant”. But the Dutch folklore of the time that storks somehow increased human fertility was clearly wrong.

Examples of similar errors abound. W.S. Jevons, an English economist of the mid-19th century, thought that sunspots influenced crop yields. More recently and tragically, British mothers have felt the harsh effects of statistical abuse. An expert witness frequently called to give evidence in the trials of mothers accused of murdering their children argued that the odds of more than one cot death in a family were statistically so slim that three such deaths amounted to murder. On this erroneous evidence, hundreds of parents have been separated from their children and many others have been sent to prison.

A failure to separate statistical significance from plausible explanation is all too common in economics, often with harmful consequences. In a past paper* Professors McCloskey and Ziliak attacked other economists' over-reliance on statistical rather than economic reasoning, and focused on one case in particular.

In the 1980s, the American state of Illinois launched a programme to keep people off the dole. Economists asked whether its costs outweighed its benefits. One study estimated that the programme produced benefits that were more than four times as large as the costs. Although this seemed a good deal for taxpayers—and other tests seem to support this conclusion—the authors of the study rejected such a finding because they found that their estimate was not statistically significant. In other words, their results fell just short of 90% certainty—the usual, though *ad hoc*, rule of thumb for most economic work—of not being random.

But far from this being an unusual case, Ms McCloskey and Mr Ziliak found that 70% of the papers published during the 1980s in the *American Economic Review* (AER), one of the most respected journals of the dismal science, failed to distinguish between “economic” and “statistical” significance. They relied too much on numbers, and too little on economic reasoning.

Increasingly insignificant

The two had hoped things might be getting better in recent years. The reverse seems to be the case. In their latest work**, Ms McCloskey and Mr Ziliak looked at all the AER articles in the 1990s, and found that more than four-fifths of them are guilty of the same sin. Indeed, so pervasive is the cult of statistical significance, say the authors, that ever more economists dispense altogether with the awkward question of whether the patterns they uncover have anything meaningful to say about the real world.

Examples are legion, and can be found in the work of very distinguished economists. In a widely quoted study of the minimum wage two Princeton University professors, Alan Krueger and David Card, claimed to show that, contrary to what you might expect, a rise in minimum wages caused less unemployment, not more. Though their statistics looked compelling, professors McCloskey and Ziliak say, they seemed to indicate, at best, a rise in employment so small as to be economically insignificant. Moreover, the paper did not address why this surprising result might be true (although the authors have discussed that question elsewhere).

Another paper criticised by Ms McCloskey and Mr Ziliak is one co-written by Gary Becker, a Nobel-winning economist. This claims to show that addiction is rational, mainly on the basis that people's response to changes in price is statistically significant. This is interesting, but does not really explain much. The three authors offered little account of why people become addicted—an odd life choice for a rational person to make.

Most fundamentally, argue Ms McCloskey and Mr Ziliak, the focus on statistical significance often means that they fail to ask whether their findings matter. They look, in other words, at things that are statistically but not economically insignificant. Most people would prefer their conclusions to be significant in both senses. Failing that, economic significance is presumably the more important.

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* “The Standard Error of Regressions”. By Deirdre McCloskey and Stephen Ziliak. Journal of Economic Literature, March 1996

**”Size Matters: The Standard Error of Regressions in The American Economic Review”. (Forthcoming in the Journal of Socio-Economics)

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Avian influenza

Wings across the world?

Jan 29th 2004
From The Economist print edition

EPA

Lots of Asian chickens are sick, and several humans have died. Should people be worried about bird flu?

AROUND Asia, a lot of birds are ill. As *The Economist* went to press, ten countries had reported the presence of avian influenza in their domestic fowl. Millions are being slaughtered, and considerable damage done to the livelihoods of those who farm them. But beyond the immediate economic costs, and the suffering of the birds involved, there is another fact and another question. The fact is that ten people have also died of the disease. And the question is, does avian flu pose a serious threat to human health?

At the moment, the answer is clearly “No”. Those who have died were infected directly by birds. No one has caught the disease from another person. While that remains the case, there is little cause for worry. However, it is clear that those influenza viruses which do pass from person to person did, ultimately, derive from animals—in all probability chickens or ducks, though pigs may have been involved, too. That includes the ancestors of the viruses which caused the great pandemics of 1918-19, 1957-58 and 1968-69. Each of these killed large numbers of people. The first, which is thought to have caused 20m-50m deaths, was one of the worst plagues of modern times.

Avian influenza occurs in wild birds, but it does not usually make them sick. In the wild, population densities are low. That means opportunities for a virus to infect new hosts are limited, so its best strategy is to keep its host alive. In those circumstances, low-virulence viruses do best. If new hosts are abundant, though, things change. In this case the premium is on reproducing fast and moving on. If the host is killed by this rapid reproduction, it does not matter from the virus's point of view. That means high-virulence viruses do better. So, in the crowded conditions of modern poultry farming, virulent strains can prosper. It does not help, either, that crowded birds are stressed, which depresses their immune systems. The result is that a potent virus will rip through a flock and kill the birds in it.

A touch of flu

The current outbreak is caused by a particularly virulent strain of influenza, known as H5N1. The name is derived from the variants it contains of proteins found on the surface of all influenza viruses. The “H” stands for haemagglutinin, and the “N” stands for neuraminidase.

Haemagglutinin is the protein responsible for binding the virus to the cell it will infect. It does so by locking on to a carbohydrate molecule known as a sialyloligosaccharide, on the target cell's surface. The exact composition of the haemagglutinin determines how strongly such binding takes place, and also what range of sialyloligosaccharides—and thus cell types—the virus can bind to. Virulent strains tend to have haemagglutinins that can bind to a variety of cell types.

The composition of the haemagglutinin also affects which species can be infected. Birds have different sialyloligosaccharides from people. That means it is hard for H5N1 to get a grip on a person. So even if somebody does catch it, the chances are that it will not be passed on.

What is worrying is what might happen if H5N1 became transmissible between humans, rather than merely, on occasion, to them. The most likely way for that to occur would be if someone who caught H5N1 from a chicken was also incubating a normal human flu virus. In this case, the two might exchange genetic material, creating a hybrid virus that had haemagglutinin which could bind easily to human cells. If the result was as virulent in people as H5N1 is in chickens, there would be big trouble.

That sequence of events is, let it be said, unlikely. No recent outbreak of avian influenza has resulted in human epidemics (though, since 1997, five avian outbreaks have infected a few people by direct transmission from birds). But it is not impossible. Both the 1957 and 1968 outbreaks were the result of hybridisation between human and animal viruses. And another example shows how serious the consequences can be when a binding protein takes an unexpected shine to human cells.

Unlike influenza, SARS (severe acute respiratory syndrome) was a completely new human disease, not merely a new strain of an old enemy. Like influenza, though, it spread to people from animals they intended to eat—in this case, probably, palm civets (relatives of mongooses) sold in the markets of southern China.

To try to work out what happened, the scientists of China's SARS Molecular Epidemiology Consortium, which was set up to examine the problem, studied samples taken from people infected at various times during last year's epidemic, and also from civets. They were thus able to track genetic changes in the virus over time, and watch it adapt to its new host species—*Homo sapiens*. They have just published their analysis in *Science*.

The shock of the new

The researchers reinforced the idea that palm civets were the virus's point of departure into people. They found characteristic similarities between human viruses collected at the beginning of the epidemic and viruses taken from civets. They also identified several ways that the SARS genome changed.

The SARS genome is made of RNA, a cousin of the more familiar DNA which forms the genome of most living things. The consortium's researchers showed that changes in genes were probably adaptive, because they were happening faster in RNA that was part of a gene than in RNA that was “non-coding”, and where changes would thus be expected to occur at random. That would help explain why, at the start of the epidemic, only about 3% of those coming into contact with an infected individual caught SARS, while by the end, the figure was about 70%.

The researchers identified one gene as being of particular interest. This was the gene for so-called spike protein. Like haemagglutinin, this is a binding protein. The SARS spike-protein gene underwent rapid change, particularly at the beginning of the epidemic. This change was probably crucial to the emergence of SARS since, presumably, it adapted spike protein to bind strongly to human cells.

Influenza and SARS are not unusual in their animal origins. About 60% of existing human pathogens, and all of those which have appeared in the past 20 years, are known to have originated in other animal species. Whether there are any systematic lessons to be drawn from that observation is unclear. But, as a recent editorial in the *Lancet* suggests, it might not be a bad idea to look at veterinary science and animal husbandry in a new light. They could prove to be a key to disease control in people, as well as in animals.

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Galileo and GPS

Where it's at

Jan 29th 2004
From The Economist print edition

A European satellite-navigation network is on its way

IT IS now almost two years since the European Union decided to go ahead with plans to launch a satellite-navigation network to rival America's existing Global Positioning System (GPS). For much of this time, Galileo, as the European system is called, met with staunch opposition from America. However, a round of talks last November seems to have assuaged American concerns. The final details remained to be negotiated in talks in Washington, DC, on January 29th and 30th, as *The Economist* went to press. But the outlook for an agreement was good.

The core of the disagreement between the EU and America was whether the signals from the two competing systems might interfere with one another. More specifically, the Americans wanted the ability to jam Galileo without rendering GPS signals ineffective. The agreement reached in November was the first step in this direction. In return for the modification of Galileo's signals, the Americans agreed to give Europe technical assistance in developing Galileo, and to make sure that the third generation of GPS, to be deployed in 2012 (Galileo should be operational by 2008), will conform to Galileo's standards. This will aid the interoperability of the two systems, which is a commercial goal of both sides. It will also, in principle, give the Europeans the ability to jam the American signals in the event of a crisis in which the two sides' interests differ.

There is a bewildering array of different sorts of signals involved in each network. GPS currently has two, a civilian channel known as C/A and a military one, Y-channel. Plans for an additional military channel, called M-code, are in the works. Galileo will debut with five different signals: one freely available to all, like the GPSC/A signal; a commercial service which is more precise; a “safety-of-life” service that can be used for critical applications such as automatically landing aeroplanes; a “public regulated service” (PRS), which will be used by the EU's governments, and presumably, their armed forces; and a fifth, unique, service that combines positioning information with a distress beacon, which could be used by ships at sea or intrepid mountaineers. The negotiations in November resolved a conflict between America's M-code and the European PRS. What remains is to harmonise Galileo's free signal with the M-code.

Both systems rely on signals precisely timed from atomic clocks carried by the satellites (GPS has 24 satellites, Galileo will have 30). A user looks at the time on at least four satellites, and triangulates (or, perhaps, “quadrangulates”) between them to find his position. Differences in the details of the different signals are what make the “premium” applications. Some are more precise than others, and they also have different levels of encryption, to prevent unauthorised users from accessing them.

What makes the situation bizarre is that several of these signals will overlap with one another, within a frequency range known as the L-band (this is about 10 times higher than the frequency used by commercial FM radio stations). That can be done using a technology called spread spectrum, which is now common in mobile telephones.

The trick is to embed the signal in a dense “pseudorandom” sequence (it is pseudorandom because it looks random but is actually generated by a computer program). To an uninitiated recipient, the result appears to be noise. However, if the recipient knows the right starting values for the program, he can regenerate the sequence and disentangle the original signal. The signals can overlap because each, to the others, resembles noise.

Galileo will be in part a commercial system. A concessionaire will get the right to operate the system for a fixed period in return for plunking down two-thirds of the deployment costs—around €2.2 billion ($2.8 billion). But control and ownership of the network will remain with the EU (most of whose members are, or soon will be, America's military allies in NATO), through a yet-to-be-formed, and ominously titled,

“Surveillance Authority”.

This means that American fears about the use of Galileo during, say, a crisis in the Taiwan Strait, are perhaps overblown. Despite the fact that China recently agreed to pay €200m towards Galileo's development, it will not have access to the PRS channel, nor a say in how Galileo is run during a crisis, according to Paul Flament, an engineer at the European Commission who is working on Galileo. The same is true of other prospective partners such as India and Israel. (Brazil is involved in an early stage of negotiations as well.)

Sceptics question whether Galileo will indeed prove profitable. They suggest that the concessionaire might face huge liabilities in the event of an accident. But at least four consortia are bidding to become the concessionaire, and these consortia include such firms as EADS (the owners of Airbus) and Alcatel. Optimistic projections talk of 2.5 billion users by 2020. If even a small fraction of that number needed additional precision and were willing to pay for it, the business would be lucrative. America may yet regret not privatising part of GPS.

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Mars

Rover barks, Beagle doesn't

Jan 29th 2004
From The Economist print edition

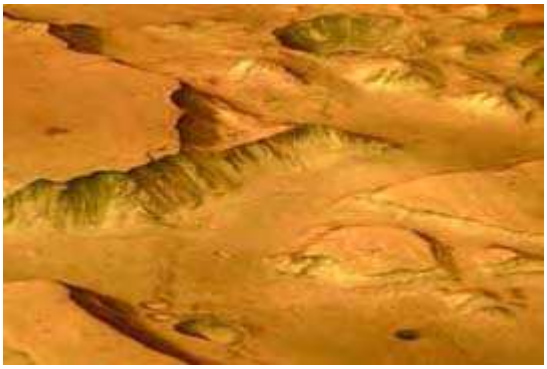
The first results are arriving from the new generation of Mars probes

Get article background

AFTER a shaky start, the Martian flotilla that has arrived over the past few weeks is getting down to business. Two of the five craft in it seem to be working perfectly. Two are lost. And a fifth is sick, but undergoing treatment.

The most spectacular pictures so far have been provided by *Mars Express*, the European Space Agency's contribution to the fleet. On January 28th this reached its final working orbit (which takes it over both poles, and thus allows it to see the whole of Mars over the course of a few days as the planet revolves beneath it). It has, however, been sending back data since shortly after it arrived, and a few days ago its controllers released a series of beautiful photographs, including a stereo image of Valles Marineris (see picture), a huge canyon that may have been formed by flowing water.

EPA



The grandest canyon

The most scientifically significant result, though, has come from *Opportunity*, America's second Mars rover. This “bounced down” on the planet's surface (its landing was cushioned by air bags) on January 25th. One of *Opportunity*'s cameras has photographed evidence of stratification in nearby rocks. Such stratification indicates that the rocks concerned are sedimentary. The layers could be repeated wind-blown deposits, or consist of ash from successive volcanic eruptions. But the terrestrial rocks they most resemble are ones that have formed under water.

The reason everyone is getting so excited is because there is a widespread assumption that any form of life which might dwell on Mars would need liquid water to live—or, even if it could now subsist by extracting moisture from ice, would have needed liquid water to evolve to that stage. Mars has seen more probes launched towards it than all of the other planets put together precisely because of this hope that it might harbour life. So there is a lot riding on the answer—not least the funding of future missions.

Spectroscopic evidence from *Mars Express* has confirmed what everybody knew already—that there is both ordinary ice (ie, solid water) and dry ice (ie, solid carbon dioxide) in Mars's polar caps. Water is a common substance, so the fact that it exists on Mars is not, despite some hysterical newspaper headlines, surprising. In any case, similar evidence was gathered a couple of years ago by America's *Mars Odyssey* craft, and the existence of polar caps on Mars has been known since 1666. But the questions of whether much of that water was ever liquid and, if so, when and for how long, are still debated. Analysis of any sedimentary rocks around would help to answer those questions.

Besides its scientific significance, the success of *Opportunity* has also helped to distract attention from the sudden refusal of *Spirit*, the first American rover to arrive on Mars, to talk to its controllers. This craft had tentatively, but successfully, nosed its way off its landing platform, and was about to drill its way into a nearby rock prior to doing a spot of chemical analysis, when it went silent.

However, the engineers at NASA, America's space agency, are nothing if not resourceful, and they have a good record of carrying out running repairs on spacecraft that are millions of kilometres away. In the case of *Spirit*, they think that one of the craft's memory chips has got cluttered up with files created on the journey to Mars. That caused another chip, which manages the first, to throw a wobbly and to keep

rebooting the computer. They are currently testing this idea by loading a diagnostic program on to the computer. In addition, as a precaution, they have deleted excess files from the equivalent memory chip on *Opportunity*.

Spirit's spirits may thus revive. As to the failures, the Japanese abandoned their fly-by craft *Nozomi* in December, and the British team in charge of *Beagle 2*, which is presumed to have landed on December 25th but from which no signal has been received, also seems to have called it quits. Still, a 40-60% success rate (depending on whether *Spirit* is brought back into commission) is not bad by the historical standards of missions to Mars. Now, the real science begins.

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The Richard Casement internship

Jan 29th 2004
From The Economist print edition

We invite applications for the 2004 Richard Casement internship. This is for a would-be journalist aged 25 or under to spend three months of the summer working in London on the newspaper, writing about science and technology. Our aim is more to discover writing talent in a science student than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words which they think would be suitable for publication in the Science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. Applications must reach us by February 20th. They should be sent by e-mail to casement@economist.com

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About sponsorship

Poetry

La belle dame sans mercy

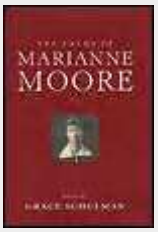
Jan 29th 2004
From The Economist print edition

A new collection shows why Marianne Moore's graceful and witty poems made her the grande dame of 20th-century American poetry

MORE than three decades have passed since the death of the odd, eccentric, brilliant Miss Moore, as she was always known, even to some of her closest friends, including the editor of this definitive edition of her collected poems.

In 1968, four years before she died, Marianne Moore edited her own edition of her collected poems, which began with “The Steeple-Jack”, a poem she wrote in her 50s. Being a fanatically scrupulous individual, severe on herself and others, she chose to leave out a great many of her own poems, and to edit down others to a tiny fraction of the length at which they were originally published. “Omissions are not accidents”, states a self-chastening line in one of her poems. Grace Schulman, though a faithful friend to her in life, has now quietly overturned Miss Moore's own wishes. We can see in these pages that Miss Moore judged some of her own work too harshly, but the real illuminating lesson of this book is the way it traces how she grew into one of America's defining poetic voices.

The Poems of Marianne Moore
Edited by Grace Schulman



Viking Press; 449 pages; $40.
Faber and Faber; £30

Buy it at
Amazon.com
Amazon.co.uk

Miss Moore was born in St Louis, Missouri in 1887, though none of her poems gives you much hint as to that fact—she was not given to autobiographical musings. She attended Bryn Mawr college, and during her student years became a passionate, entertaining and voluminous letter writer. The edition of her letters which was published in 1997 ran to almost 600 pages, and that amounted, according to its painstaking editor, Bonnie Costello, to about 5% of the letters Miss Moore wrote during her lifetime. It is in her letters that you will find some of her most astute criticism of the work of other poets with whom she engaged—and clashed.

But it is her poetry for which she will be best remembered. Some poets write a poem, abandon it, and then move on. Not so Miss Moore. She spent her life fiddling with old poems. Many of her poems are not long—less than a page in length—and they have to be read very slowly, and several times, in order to get the very best out of them. She admired exactitude of expression above almost all things else. Every word counted. She picked them with tweezers. She incorporated quotations from here and there—books, magazines, newspapers—into her work, and often with humorous intent, to act as a kind of counterpoint to the commentary of her own words. Her poems are crisp, witty and usually intellectually intricate, with much graceful pirouetting around the subject matter.

Hulton

Long, limber sentences sweep and turn. She was also very concerned about how her poems looked on the page. Their shape was an essential part of their unfolding argument, which was often wittily digressive. She loved both the sound of words and their visual patterning on the page, and she strove to make these two elements work in harmony with each other.

One of Miss Moore's favourite topics was animals, which she adored, and she spent a lot of time at the zoo. She wrote about them constantly, minutely observing their quirky behaviour, but never for its sake alone. She was not a merely descriptive poet. She enjoyed relating animal behaviour to the human

condition, and in this we can see her as a worthy successor to Aesop and Jean de La Fontaine, a 17th-century French fabulist whose work she translated at length over a period of seven years.

Her mother, with whom she lived in a small apartment in Brooklyn for much of her adult life, thought she spent too much time in the company of animals. “I am so glad that Marianne has decided to give the inhabitants of the zoo a rest,” she once remarked to Miss Moore's younger friend and fellow poet Elizabeth Bishop when she discovered that her daughter had been writing about something else for a change.

Towards the end of her life she became rather famous, and her eccentricities seemed to multiply in response to all the attention she enjoyed. She affected splendid hats—an especial favourite was a tricorne; another had a brim as extravagant as Saturn's moons. The titles of some of her poems also seem to sum up the lovely, restless waywardness of her character. One of them, for example, is called “Walking-Sticks and Paper-Weights and Water Marks”. She was, in the deepest sense, an original.

The Poems of Marianne Moore.
Edited by Grace Schulman.
Viking Press; 449 pages; $40.
Faber and Faber; £30

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About sponsorship

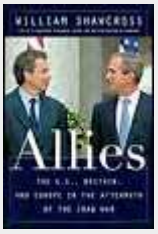
The Iraq war

Dear friends

Jan 29th 2004
From The Economist print edition

IT ALL seemed so simple. Either you were for the invasion of Iraq or against it; either you believed Saddam Hussein had weapons of mass destruction or you didn't; either you thought Saddam was too dangerous to trust or you didn't; either you thought George Bush was right or that he was a hypocritical, bullying, imperialist oil-grabber. William Shawcross, like *The Economist*, was in the former of all those categories and is unrepentant about it. The point of this short, polemical book is to explain why. In also telling the story of the build-up to war, though, it shows how the issues weren't simple at all. Which is one big reason why the war took place.

Allies: The U.S., Britain, Europe, and the War in Iraq
By William Shawcross



PublicAffairs; 272 pages; $20. Atlantic Books; £14.99

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Mr Shawcross is well placed to comment on the war, and not just because he tended to agree with this newspaper. He is no pro-American, pro-war sap: he made his name in 1979 with “Sideshow”, a book that chronicled and lambasted America's war in Cambodia earlier in that decade. More recently, he has been close to the United Nations, having published “Deliver Us From Evil” in 1999, an exploration of the UN's peacemaking and peacekeeping operations around the globe which brought him into regular contact both with Kofi Annan, the UN secretary-general, and with Sergio Vieira de Mello, the senior official who died in the bombing of the UNoffices in Baghdad last August.

Despite that background, he argues in his new book that Mr Bush and Tony Blair were right to go to war to depose Saddam against the bulk of world opinion and without the backing of the UN Security Council, and that Jacques Chirac was the second-biggest villain of the affair. He thinks that France's president, not Mr Bush, was the true hypocrite.

The issue of weapons of mass destruction was not, as he explains, a simple one of whether they existed or whether they were primed for immediate attack on western countries. The real issue was whether it would have been right to take the risk that Saddam had them, might use them, or might resume development of them as soon as the coast was clear. All the evidence collected by UN weapons inspectors in 1991-98, when they were allowed in Iraq, pointed to the conclusion that Saddam could not be trusted. The inspectors themselves believed at that time that large caches of weapons materials remained to be found.

Meanwhile the containment operation, a combination of no-fly-zones, bombings and UN sanctions, was producing misery and grievances without making Saddam feel any more trustworthy. He and his regime remained a source of strategic instability in the whole Middle East, a mortal danger to his own people and a plausible sponsor of terrorism. There were no good options available, but leaving things as they were looked the worst of all.

Every doubt about Saddam and his capabilities is now being used by critics to reinforce the case against war. Yet as Mr Shawcross argues, the responsible reaction to such doubts, about a serial slaughterer, invader and user of chemical weapons, should rather have been to refuse to give Saddam the benefit of them. That was true in 1991, in 1998 when UN inspections ceased, and in 2003. So why, critics ask, did it take so long if it was really so necessary? And why couldn't Iraq be dealt with through the UN, given that inspections, sanctions and 17 Security Council resolutions had been handled in that way?

One big answer, Mr Shawcross believes, is President Chirac. He had been a self-declared “dear friend” of Saddam since 1974 when France's then prime minister first met the then vice-president of Iraq and shortly thereafter negotiated a big nuclear-power deal with him as well as a large sale of weapons. There

are strong signs that after 1981, when Israel bombed the nuclear reactor that France had sold Iraq, Mr Chirac entered into negotiations to supply another one. And once he was president in the 1990s, France continually undermined efforts in the Security Council to enforce the ceasefire resolution of 1991. That is the context in which President Chirac's supposed efforts in 2002-03 to defend the “international order” and the UN itself need to be placed. In Mr Shawcross's view he was a wrecker, not a defender.

Now, the big issue is whether the effort to rebuild Iraqi institutions and to build a democracy can succeed. That isn't simple either. But what is clear is that it was made harder by the divisions among the transatlantic allies.

Allies: The U.S., Britain, Europe, and the War in Iraq.
By William Shawcross.
PublicAffairs; 272 pages; $20. Atlantic Books; £14.99

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American foreign policy

The virtuous rage of George Soros

Jan 29th 2004
From The Economist print edition

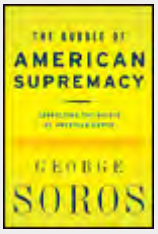
GEORGE SOROS, financier, philanthropist and would-be *philosophe*, is angry. George Bush, he says, has duped America. He promised a “humble” foreign policy, but behind the bland surface lurked “a well-thought-out and aggressive concept of America's role in the world”. The only thing missing, absent the Soviets, was a suitable enemy. September 11th provided one. The atrocity turned the stumbling figurehead into a dedicated leader who believes he has a historic task. “The trouble”, says Mr Soros, “is that he is leading us—and the world—in the wrong direction.”

The wrong direction? America should not have lumped North Korea, Iran and Iraq together in an “axis of evil”. Though right to hunt al-Qaeda in Afghanistan, America was wrong to invade Iraq. The administration's true motives for that war are “shrouded in mystery”, but may have included securing Iraq's oil, helping Israel or simply proving that America would henceforth set the world's agenda. A Franco-American “good cop, bad cop” routine was delivering results via the Security Council and inspectors but Mr Bush was intent on war. He won it double-quick, but landed in a quagmire à la Vietnam. Now, America has to stick it out. But the folly of Iraq will make it harder to get rid of other leaders like Saddam and prevent future attempts at nation-building.

It is not all criticism. Mr Soros has “a constructive vision”: swords into ploughshares, of course; more foreign aid; and a world system under which all states submit to the same rules. Yes, America must sometimes act without UN approval (eg, Kosovo), but not if it goes against “international public opinion”, which could be represented through a block of influential democratic nations operating inside the UN. The United States would have to see itself less as a superpower and more as “a leader of the free world”. Get real.

The Bubble of American Supremacy: Correcting the Misuse of American Power.
By George Soros.
PublicAffairs; 207 pages; $22. Weidenfeld & Nicolson; £12.99

The Bubble of American Supremacy: Correcting the Misuse of American Power
By George Soros



PublicAffairs; 207 pages; $22. Weidenfeld & Nicolson; £12.99

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Agent Orange

Horror of horrors

Jan 29th 2004
From The Economist print edition

“THERE is a darkened room at the Tu Du hospital in Ho Chi Minh City that is always kept locked.” So begins the most disturbing chapter of Agent Orange. Inside are row upon row of jars containing disfigured fetuses. In one of the jars photographed in this book there is a child with no eyes. In others are several unfortunates distorted almost beyond recognition. And here, in a two-page close-up, are a pair of wretchedly malformed Siamese twins, fused at the neck.

Agent Orange: Collateral Damage in Vietnam
By Philip Jones Griffiths

Trolley; 160 pages; $39.95 and £24.95

Buy it at
Amazon.com
Amazon.co.uk

This is not your typical coffee-table book, but rather a work of photojournalism that documents one of the neglected legacies of the Vietnam war: the impact of America's extensive use of a defoliant known as Agent Orange. America sprayed the stuff in South Vietnam to wipe out thick foliage and to expose North Vietnamese fighters. Unfortunately, the defoliant contained dioxin, which has been linked by some scientists to birth defects, liver cancer and other maladies. Agent Orange, the author argues, is a “genetic time-bomb”.

Three things raise this work out of the realm of the macabre. First is the author's evident talent as a photographer and journalist. Second is his intellectual honesty, for he admits there are scientific uncertainties concerning dioxins. However, he makes a clever point to bolster his argument that America must pay reparations to victims: the genetic defects he documents have afflicted chiefly those who lived or fought in southern Vietnam, where America used Agent Orange during the war, and not those who stayed in the north, where America did not.

The third, and most compelling, point is his compassion. He observes that while some victims are pushed out on to city streets, most are lovingly cared for by their families. He expresses his empathy for mothers, who must now see procreation as “a squalid and terrifying exercise of chance”. Even in describing that dark room full of disfigured fetuses, he offers this thought: “And yet, on close examination, there are glimpses of nascent humanity—a touch, an embrace and the occasional appearance of dignified serenity.”

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About sponsorship

The evolution of English

Talking down

Jan 29th 2004
From The Economist print edition

IN 1896, William Jennings Bryan, a three-time candidate for the American presidency, gave a speech on a relatively dry financial topic, criticising the gold standard. But his rhetoric was for the ages: “You shall not press down upon the brow of labour this crown of thorns, you shall not crucify mankind upon a cross of gold!”

Just over a hundred years later Sam Brownback, arguing for war against Iraq in a speech to the American Senate, said, “We go at Iraq and it says to countries that support terrorists, there remain six in the world that are as our definition state sponsors of terrorists, you say to those countries: ‘We are serious about terrorism, we're serious about you not supporting terrorism on your own soil'.”

What happened over the 20th century? Americans (and, to a lesser extent, Britons) no longer expect public figures, whether in oratory or in writing, to command the English language with skill and flair. Nor do they aspire to such command themselves. John McWhorter, a linguist and controversialist of mixed liberal and conservative views, sees the triumph of 1960s counterculture as responsible for the decline of formal English.

Doing Our Own Thing: The Degradation of Language and Music and Why We Should, Like, Care
By John McWhorter

Gotham Books; 304 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

Blaming the permissive 1960s is nothing new, but this is not yet another screed against the decline in education. Mr McWhorter's academic speciality is language history and change, and he sees the gradual disappearance of “whom”, for example, to be natural and no more lamentable than the loss of the case-endings of Beowulf-era English.

But the cult of the authentic and the personal, “doing our own thing”, has spelt the death of formal speech, writing, poetry and music. While even the modestly educated sought an elevated tone when they put pen to paper before the 1960s, even the most well regarded writing since then has sought to capture spoken English on the page. Equally, in poetry, the highly personal, performative genre is the only form that could claim real vibrancy. In both oral and written English, talking is triumphing over speaking, spontaneity over craft.

Illustrated with an entertaining array of examples from both high and low culture, the trend that Mr McWhorter documents is unmistakable. But it is less clear, to take the question of his subtitle, why we should, like, care. As a linguist, he acknowledges that all varieties of human language, including non-standard ones like Black English, can be powerfully expressive—there exists no language or dialect in the world that cannot convey complex ideas. He is not arguing, as many do, that we can no longer think straight because we do not talk proper.

Russians have a deep love for their own language and carry large chunks of memorised poetry in their heads, while Italian politicians tend to elaborate oratory that would seem anachronistic to most English-speakers. Mr McWhorter acknowledges that formal language is not strictly necessary, and proposes no radical education reforms—he is really bemoaning the loss of something beautiful more than useful. We now take our English “on paper plates instead of china”. A shame, perhaps, but probably an inevitable one.

Doing Our Own Thing: The Degradation of Language and Music and Why We Should, Like, Care.
By John McWhorter.
Gotham Books; 304 pages; $26

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New fiction

Russian dolls

Jan 29th 2004
From The Economist print edition

COMMONLY for fiction writers the choice of a fiction-writing protagonist constitutes the worst sort of laziness, a failure to exercise the very imagination they are paid to exploit. In the beguiling “Oracle Night”, however, Paul Auster has taken the inherent self-consciousness of a novelist narrator to such painstakingly layered extremes that the strategy seems anything but lazy. In remarkably few pages, Mr Auster builds up a marvellously thick ply of wallpapers, and it is delectable to peel away the little rose pattern to reveal the stripes underneath.

Oracle Night
By Paul Auster

Henry Holt; 243 pages; $23.
Faber and Faber; £15.99

Buy it at
Amazon.com
Amazon.co.uk

Sid is a writer recuperating from a long illness, who buys a curiously shaped blank notebook manufactured in Portugal from a Chinese stationery shop in Brooklyn. The notebook has powers. As soon as he begins to write in it, the words flow as they haven't since his brush with death months before. He begins the story of another man, an editor, who has just been given the manuscript of another novel, whose plot Sid also relates.

A novelist writing about a novelist writing about an editor reading a novel: these Russian dolls might come across as merely cute, were it not for the fact that the lucid Mr Auster is a natural story-teller, with a seemingly inexhaustible trove of yarns at his disposal. All of the stories within stories are compelling in their own right.

Likewise is the larger tale strangely riveting, though many of the misfortunes that the ill-fated notebook appears to set in motion are small-scale; for example, Sid writes his character into a locked room and, ostensibly omnipotent author or no, cannot for the life of him write the fellow out. As in much of his previous work, Mr Auster walks a delicious line between the realistic and the supernatural. His characters live in the grey area between “pragmatism and science” and “the darkness of primitive, mystical thinking”. Nothing happens in this little book that is strictly speaking impossible. Yet coincidences pile up in a disturbing fashion, and a cascade of catastrophes that beset the narrator begins on the very day of the Portuguese notebook's purchase. Ultimately the author's concern is the fearsome power of narrative, for Sid learns that “words could kill”.

That sounds all very grand, but more crucially for his prospective audience, this neat, sweet volume is a joy to read. The prose is clean and translucent. Considering the number of spin-off plots that Mr Auster manages to insert in asides or footnotes, readers get more than their money's worth in plain good story-telling.

Oracle Night.
By Paul Auster.
Henry Holt; 243 pages; $23.
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About sponsorship

Sundance film festival

Shooting history

Jan 29th 2004 | PARK CITY, UTAH
From The Economist print edition

“September Tapes” is so real that the Defence Department seized its early footage

Acting for real

ABOUT half way through “September Tapes”, a fictional documentary set in post-Taliban Afghanistan and one of the more interesting films screened at this month's Sundance film festival, the protagonists get involved in a gun battle with Taliban fighters. No surprises here: as civilian westerners near the Pakistani border they are easy targets. What does come as a shock, though, is the unmistakable sound of live ammunition. To borrow Michael Herr's words, the elephant is right there, sitting on your chest.

Part “Blair Witch Project”, part “Apocalypse Now”, “September Tapes” tells the story of three people searching for an elusive truth, in this case the whereabouts of Osama bin Laden in the middle of Afghanistan at war. George Calil makes a superb job of playing Don Larson, a gung-ho American journalist deeply affected by the September 11th terrorist attacks. Driven on by a hidden resolve, he drags his cameraman, Sonny, and their American-Afghan translator/guide, Wali (Wali Razaqi) deeper and deeper into the heart of the war between the Northern Alliance and the remnants of al-Qaeda and the Taliban.

Shot using hand-held digital video recorders, the film has the look and feel of a real documentary. Take away the context of the cinema and it would be quite easy to believe the film's conceit that the tapes were found by Northern Alliance troops somewhere near the Afghani-Pakistani border. Harsh sunlight, washed out backgrounds and pixilated edges are part of digital video's aesthetic, and one that is perfectly suited for this film. So much so that the Defence Department deemed it necessary, when the crew returned to the United States, to hold their footage for five months for examination. Even now, Christian Johnston, the director, has yet to recover about eight hours of footage.

Mr Johnston and his film crew's travails in a series of unpredictable locations are matched, deliberately, by the fictional journey of Larson, Wali and Sonny. Warned by the Defence Department that they could not expect American help should they find themselves in a tight situation, the real-life crew came to rely on the benevolence and protection of Kabul's version of Don Corleone, known as Baba Jon, who provided the film-makers not only with the vehicles they needed but also Northern Alliance soldiers, complete with AK-47s and RPGs, to turn Mr Johnston's script into reality.

Some scenes were recreated from the crew's experience. At one Northern Alliance checkpoint, the crew found themselves held up at gunpoint. Only the presence of General Dil Agha, acting in the film as a Northern Alliance commander, defused the situation. This meeting was faithfully re-enacted for the cameras. Other scenes were more spontaneous: a trip to a gun-dealer's house turned nasty when the dealer misunderstood that Calil and Razaqi, acting out a scripted argument, were playing a role. The film's support actors—Northern Alliance commanders, Razaqi's Afghan cousins, the police and citizens of Kabul—also provide an unscripted but captivating side to the story. One Alliance commander, who said he fought against Mr bin Laden in the Tora Bora caves, makes the claim on-camera that Mr bin Laden escaped alive, but only because he was allowed to by the Americans.

It is not simply authenticity that gives “September Tapes” its dramatic energy. The subtle scripting of the relationship between Larson and Wali takes the film beyond the harsh reality of the war and into the personal. Throughout, Larson records his notes in a digital recorder. Though these do nothing to dispel the viewer's notion that he is angry as well as foolish, they hint at something he is keeping hidden from

Wali.

For Wali's part, his loyalty to Larson is constantly challenged by the latter's knack for getting into near desperate situations, this relationship echoed by the larger political drama going on around them. At one point, travelling with an Alliance commander, they narrowly avoid being blown up by an American jet. Later, seemingly without irony, Larson bitterly condemns the September 11th terrorists for their cowardice: real soldiers, he comments in his notes, fight their enemy face to face. As he says this, the camera pans upwards to show an aircraft carving a line across the clear blue sky, a reference to both the double standards of Larson's patriotism and the secret that drives him on.

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About sponsorship

Ernest Hendon

Jan 29th 2004
From The Economist print edition

Ernest Hendon, an unexpected survivor, died on January 16th, aged 96

AP

THEY said Ernest Hendon did not look his age when he stood, two years ago, in front of the Alabama House of Representatives in Montgomery. His back was straight, his eyes bright. He felt good, he told reporters; and better still now that the Alabama House had expressed regret for what had been done to him. “I feel this means that it won't happen again,” he said happily.

Limelight was the last thing he had ever expected. He was born a poor black sharecropper's son in Macon County, Alabama, and was a sharecropper himself. Nothing came easily to him or his neighbours. They hoed small plots of red earth in the pine woods, lived in wooden shacks, and picked cotton in the season. There was little money around and small chance of seeing a doctor, though syphilis was more rampant there than anywhere else in the South. From time to time, the Ku Klux Klan lit their fiery crosses in the hills.

Mr Hendon remembered the day the bus arrived, in 1932. It carried doctors and nurses who had come to do a study among the syphilitic sharecroppers. In exchange for their help they would get free medical examinations, burial insurance, free transport to and from the hospital in Tuskegee and—a rare treat—the chance to stop and shop in town. On the days they were examined, the men got a free hot meal. Along with 398 others, Mr Hendon, then 24, signed up to take part.

He was already unwell, though he himself, like most of the men, was not sure what was wrong with him. The doctors called it “bad blood”, a term that also covered anaemia and general weariness. Some of the volunteers were given, for a while, the fierce and ineffective syphilis treatment of the time: injection with arsenic compounds and mercury ointment for the crusted ulcers on their skin. Mr Hendon, like many of the others, was not. He was given “pink medicine”, or aspirin, and “some kinda brown-looking medicine”, which was iron tonic. When a “last chance” for free treatment was offered, Mr Hendon turned up and was given a spinal tap: “They give me a test in the back and they draw something out of me.” “They said it would do you good,” he said later.

None of it did him good. The doctors and nurses were not there to cure, but to observe the progress of untreated syphilis. Patients who are untreated sometimes develop no symptoms, and sometimes spontaneously recover; but they can also suffer liver deformity, heart damage, paralysis and insanity. Burial insurance was offered because the data for the study was to come from the men's autopsies. But none of this was communicated to them.

For 40 years, the Tuskegee Syphilis Study continued. Mr Hendon went for his examinations and, after 25 years, got a certificate of appreciation from the surgeon-general. The men especially liked Eunice Rivers, a motherly black nurse who made them feel at home in the hospital. Several of the doctors and nurses were black, and the Tuskegee Institute, which ran the hospital, was a black university. There was dignity in the proceedings, and a sense that the doctors cared about the health of poor blacks. At that time, few others did.

Ignoring penicillin

Yet the study also showed clearly the parternalistic racism of the age. The federal Public Health Service (PHS) wanted not only to compare the effects of syphilis in blacks and whites, but also to stop black

“degeneracies” spreading to the white population. It made no secret of this. The Tuskegee study was mentioned in reports and cited at conferences. The fact that it was doing nothing to cure Mr Hendon or the others was, however, kept quiet.

Certain moments were tricky. In 1942, the army drew up a list of likely recruits from Macon County. Many subjects of the study were on it, presumably including Mr Hendon, who was the right age. Having seen them, the local recruiting board ordered them to be treated for syphilis; but the assistant surgeon-general intervened to have their names removed from the list.

The next year, penicillin became an effective treatment for syphilis. It was not given to the Tuskegee subjects unless they asked for it. By 1948 the Nuremberg Code, inspired by revelations of experiments in the Nazi death camps, set standards for medical studies on human subjects. In Tuskegee, things went on as before.

No serious questions were asked until 1972, when a whistle-blower from the PHS talked to the Associated Press. Once exposed, the study was ended immediately. That very year, the surviving subjects filed a lawsuit against all the individuals and institutions involved. The government agreed to pay out almost $10m, of which Mr Hendon's share was $37,500, with free health care for life.

He had confounded expectations by living so long. More than 100 of the subjects died of the disease or related complications, together with at least 40 unwitting wives, and 19 children contracted syphilis at birth. A longer-lasting legacy was black distrust, which continues, of government doctors and clinical trials.

Mr Hendon was too ill to go to Washington when President Bill Clinton apologised, in 1997. Instead, he watched by satellite. But five years later he was in smiling form when Alabama said sorry. “I survived,” he said. “That's good.”

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Overview

Jan 29th 2004
From The Economist print edition

America's Federal Reserve kept interest rates unchanged at 1.0%. In its statement, however, the Fed's Open Market Committee changed the wording that it uses to express its intentions to financial markets. In its recent meetings, the rate-setting committee said that low interest rates "can be maintained for a considerable period". This time, the central bank said that it "can be patient in removing its policy accommodation," leaving bond traders to wonder for how long exactly they should be patient. Futures markets do not seem to expect a rise in interest rates until the summer, although many economists now think that any rate increase will come early next year.

American consumer confidence improved in January, according to one survey, although it failed to meet economists' more ambitious expectations. The Conference Board's consumer-confidence index rose to 96.8 in January, up from December's revised estimate of 91.7.

Nearly 6.5m existing American **homes** changed hands in December, which makes for an increase of 6.9% compared with November. Orders for **durable goods** in December were unchanged from the previous month, disappointing analysts who expected a 2.0% rise.

Germany's Ifo business-climate index rose in January to 97.4, a three-year high. That provided some unexpected cheer for euro-area economic forecasters, who have recently been beset by worries over a rising euro. Also in Germany, consumer-price inflation ran at 1.3% in the year to January.

Austria's industrial production rose by 7.2% in the year to August.

Retail sales in **Sweden** rose by 1.2% in December and producer prices fell by 0.2% in the same month.

Consumer prices in **Australia** rose by 2.4% in the year to the fourth quarter, down from 3.0% a year earlier.

Retail sales in **Japan** fell by 0.1% in the year to December. Industrial production also fell, by 1.0%, but only in the month of December. In the year to December it still managed to rise by 5.7%.

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Output, demand and jobs

Jan 29th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q3	+ 4.8	+ 2.8	+ 3.6	– 0.1	Q3	+ 5.3	Q3	5.6	Dec	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 0.8	+ 1.9	+ 7.2	Aug	– 4.0	Aug	4.5	Nov	4.3
Belgium	+ 0.8	Q3	+ 2.2	+ 1.0	+ 1.9	– 6.6	Nov	+ 3.4	Oct	12.7	Dec†	11.7
Britain	+ 2.0	Q3	+ 3.1	+ 2.0	+ 2.8	– 0.5	Nov	+ 4.0	Dec	4.9	Nov††	5.2
Canada	+ 1.0	Q3	+ 1.1	+ 1.7	+ 3.1	– 0.3	Oct	+ 2.4	Oct	7.4	Dec	7.5
Denmark	– 0.5	Q3	– 0.8	+ 0.5	+ 2.2	+ 1.4	Nov	+ 5.5	Oct	6.5	Nov	5.4
France	– 0.3	Q3	+ 1.5	+ 0.2	+ 1.9	+ 1.1	Nov	– 2.2	May	9.6	Nov	9.2
Germany	– 0.2	Q3	+ 0.9	– 0.1	+ 1.7	+ 1.0	Nov	– 2.5	Nov	10.4	Dec§	10.1
Italy	+ 0.5	Q3	+ 2.0	+ 0.5	+ 1.7	+ 0.2	Nov	– 1.5	Oct	8.4	Oct	8.9
Japan	+ 1.8	Q3	+ 1.4	+ 2.4	+ 2.1	+ 5.7	Dec	– 0.1	Dec	5.2	Nov	5.3
Netherlands	– 1.1	Q3	+ 0.5	– 0.7	+ 1.1	– 0.9	Nov	– 4.7	Oct†	5.7	Dec**	4.3
Spain	+ 2.4	Q3	+ 2.9	+ 2.4	+ 3.0	+ 2.0	Nov	+ 4.1	Oct	11.3	Nov	11.5
Sweden	+ 2.0	Q3	+ 1.9	+ 1.6	+ 2.5	+ 3.0	Nov	+ 3.9	Nov	5.1	Dec†	4.1
Switzerland	– 0.6	Q3	+ 1.0	– 0.4	+ 1.6	+ 0.4	Q3	– 4.0	Nov	4.1	Dec†	3.3
United States	+ 3.6	Q3	+ 8.2	+ 3.1	+ 4.5	+ 2.3	Dec	+ 8.3	Nov	5.7	Dec	6.0
Euro area	+ 0.3	Q3	+ 1.5	+ 0.5	+ 1.9	+ 1.2	Nov	nil	Oct	8.8	Nov	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q3	+ 3.2	na	na	+ 0.3	Nov	+ 5.3	Oct	8.2	Dec†	8.1
Greece	+ 5.0	Q3	+ 1.8	na	na	– 0.3	Aug	+11.2	Aug	na		na
Iceland	+ 3.2	Q3	na	na	na	– 0.3	2002	na		2.8	Oct†	2.5
Ireland	– 0.1	Q3	na	na	na	+15.7	Nov	+ 1.0	Oct	4.7	Dec	4.3
Luxembourg	+ 1.3	2002	na	na	na	+ 4.3	Oct	+ 2.2	Aug	4.1	Nov	3.3
New Zealand	+ 3.5	Q3	+ 6.3	na	na	+ 4.1	Q3	+ 6.1	Q3	4.4	Q3	5.4
Norway	+ 0.2	Q3	+ 3.3	na	na	+ 2.1	Nov	+ 1.6	Nov	4.7	Q3	3.8
Portugal	– 0.9	Q3	– 2.1	na	na	+ 1.4	Nov	– 0.4	Nov	6.3	Q3†	5.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Sep-Nov; claimant count rate 3.0% in Dec. §EU harmonised rate 9.2% in Dec. **Oct-Dec.

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Prices and wages

Jan 29th 2004
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2003	2004	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.7	+ 2.3	– 1.1	Q4	+ 1.6	+ 5.1	Q3	+ 3.6
Austria	+ 1.2	Dec	+ 1.8	+ 1.3	+ 1.2	+ 2.5	Dec	+ 0.8	+ 2.3	Nov	+ 2.2
Belgium	+ 1.7	Dec	+ 1.4	+ 1.5	+ 1.4	– 0.4	Dec	+ 1.9	+ 1.8	Q4	+ 2.2
Britain	+ 1.3	Dec*	+ 1.7	+ 2.8†	+ 2.5†	+ 1.8	Dec	+ 1.0	+ 3.5	Nov	+ 3.8
Canada	+ 2.0	Dec	+ 3.9	+ 2.7	+ 1.6	– 4.0	Nov	+ 2.3	+ 3.1	Oct	+ 2.3
Denmark	+ 1.4	Dec	+ 2.5	+ 2.1	+ 1.6	+ 0.2	Dec	+ 1.3	+ 3.6	Q3	+ 3.9
France	+ 2.2	Dec	+ 2.3	+ 2.1	+ 1.7	+ 0.7	Nov	+ 0.9	+ 2.9	Q3	+ 3.5
Germany	+ 1.3	Jan	+ 1.0	+ 1.1	+ 1.1	+ 1.3	Dec	+ 1.1	+ 1.6	Nov	+ 2.8
Italy	+ 2.5	Dec	+ 2.8	+ 2.8	+ 2.3	+ 1.1	Nov	+ 1.6	+ 2.7	Dec	+ 2.2
Japan	– 0.5	Nov	– 0.4	– 0.2	– 0.2	– 0.1	Dec	– 1.3	+ 0.6	Nov	+ 0.6
Netherlands	+ 1.7	Dec	+ 2.8	+ 2.2	+ 1.7	+ 2.6	Nov	+ 2.2	+ 1.4	Jan	+ 3.5
Spain	+ 2.6	Dec	+ 4.0	+ 2.9	+ 2.6	+ 1.1	Dec	+ 2.0	+ 3.1	Q3	+ 3.8
Sweden	+ 1.4	Dec	+ 2.3	+ 2.1	+ 1.5	– 1.9	Dec	– 0.6	+ 3.1	Oct	+ 3.1
Switzerland	+ 0.6	Dec	+ 0.9	+ 0.6	+ 0.5	– 0.2	Dec	– 0.4	+ 1.8	2002	+ 2.5
United States	+ 1.9	Dec	+ 2.4	+ 2.3	+ 1.5	+ 4.0	Dec	+ 1.2	+ 2.0	Dec	+ 3.2
Euro area	+ 2.0	Dec	+ 2.3	+ 2.0	+ 1.7	+ 1.4	Nov	+ 1.1	+ 2.6	Q3	+ 3.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.6	Dec	+ 1.7	na	na	– 0.4	Dec	+ 1.4	+ 3.9	Q3	+ 4.1
Greece	+ 3.1	Dec	+ 3.4	na	na	+ 1.9	Oct	+ 2.4	na		na
Iceland	+ 2.4	Jan	+ 1.4	na	na	+ 1.3	Jan	+ 2.7	+ 5.5	Nov	+ 5.7
Ireland	+ 1.9	Dec	+ 5.0	na	na	– 8.4	Nov	– 3.0	+ 4.7	Q3	+ 6.0
Luxembourg	+ 2.1	Dec	+ 2.2	na	na	+ 0.8	Nov	– 0.1	+ 5.0	Oct	– 0.1
New Zealand	+ 1.6	Q4	+ 2.7	na	na	+ 0.1	Q3	– 2.1	+ 2.3	Q3	+ 2.3
Norway	+ 0.6	Dec	+ 2.8	na	na	+ 0.7	Dec	+10.1	+ 4.3	Q3	+ 5.0
Portugal	+ 2.4	Dec	+ 4.0	na	na	nil	Dec	+ 1.3	– 1.7	Nov	– 0.5

*New series. RPI inflation rate in December: 2.8% (corrected). †RPI

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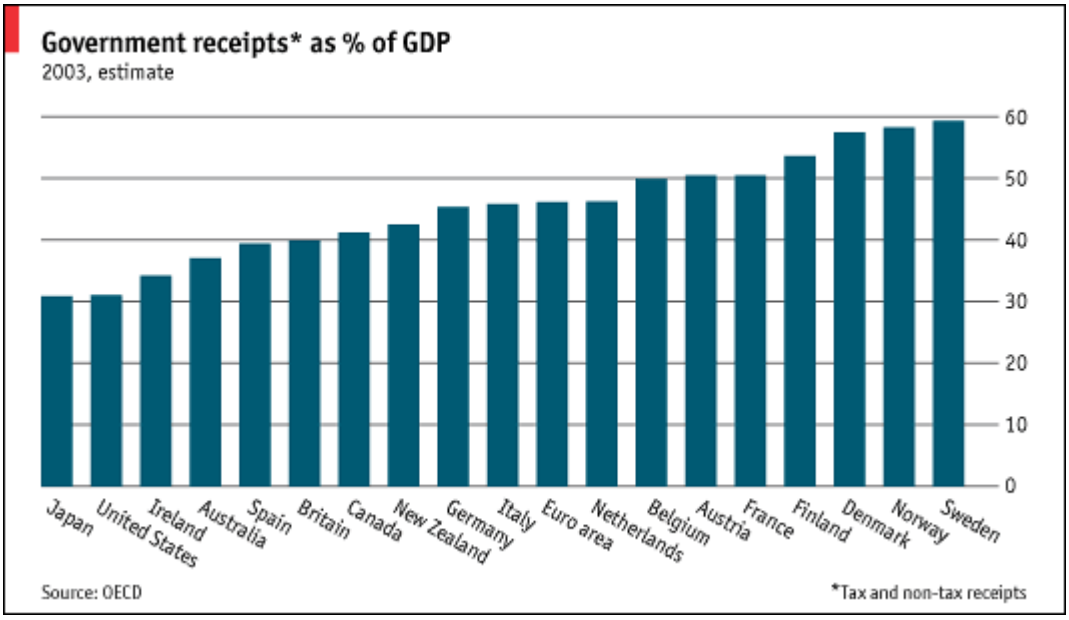
Government receipts

Jan 29th 2004
From The Economist print edition



In 2003, Sweden's government took in taxes and other income equivalent to almost 60% of the country's GDP, the highest of all the rich countries in our chart. Even so, government receipts in Sweden have come down from 63% of GDP just five years ago. America's government receipts fell to 31% of national income in 2003, their lowest level as a proportion of GDP during the past 15 years.

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Money and interest rates

Jan 29th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jan 28th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.0	Nov	5.57	4.77	5.33	5.72	5.15	6.54
Britain	+ 7.3	+ 6.7	Dec	4.06	3.88	4.33	4.79	4.22	5.58
Canada	+10.0	+ 6.9	Dec	2.24	2.83	2.66	4.63	5.03	5.89
Denmark	+ 8.8	+ 8.8	Dec	2.15	3.10	2.54	4.26	4.24	5.36
Japan	+ 4.1	+ 1.5	Dec	0.03	0.03	0.07	1.32	0.78	1.42
Sweden	+ 2.9	+ 3.6	Nov	2.55	3.66	2.66	4.56	4.50	3.31
Switzerland	+21.0	+ 7.6	Dec	0.24	0.60	-0.81	2.56	2.27	2.53
United States	+ 6.3	+ 3.3	Dec	1.00	1.24	1.82	4.19	4.03	5.69
Euro area†	+10.7	+ 7.4	Nov	2.08	2.81	2.38	4.10	3.97	3.93

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.00%, Japan No. 256 1.32%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jan 29th 2004
From The Economist print edition

1995=100

	Jan 20th	Jan 27th*	% change on one month	% change on one year
Dollar index				
All items	92.9	92.7	+ 4.2	+18.9
Food	90.9	91.0	+ 6.1	+12.8
Industrials				
All	95.5	95.1	+ 1.9	+27.9
Nfa†	94.5	93.4	+ 2.7	+21.7
Metals	96.4	96.6	+ 1.4	+33.5
Sterling index				
All items	80.6	80.3	+ 1.9	+ 7.1
Euro index				
All items	97.2	96.7	+ 3.6	+ 2.2
Yen index				
All items	106.0	104.2	+ 3.0	+ 5.9
Gold				
$ per oz	411.25	410.25	– 1.5	+11.2
West Texas Intermediate				
$ per barrel	36.00	34.05	+ 3.4	+ 4.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jan 29th 2004
From The Economist print edition

Market indices

	Jan 28th	2003-04 high	2003-04 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,292.2	3,346.2	2,673.3	– 0.9	– 4.3	+10.6	+52.6
Austria (ATX)	1,749.1	1,749.1	1,120.2	+ 2.9	nil	+52.1	+82.4
Belgium (Bel 20)	2,398.2	2,398.2	1,426.6	+ 0.4	–34.9	+18.4	+42.1
Britain (FTSE 100)	4,468.1	4,518.1	3,287.0	– 1.0	–35.5	+13.4	+29.0
Canada (Toronto Composite)	8,535.7	8,623.6	6,228.6	– 1.0	–25.1	+29.0	+54.0
Denmark (KBX)	229.3	230.5	145.0	+ 2.6	–24.0	+37.9	+65.0
France (SBF 250)	2,519.6	2,519.6	1,630.1	+ 0.9	–42.6	+22.7	+47.2
(CAC 40)	3,706.8	3,706.8	2,403.0	+ 0.8	–46.5	+21.0	+45.1
Germany (DAX)	4,150.2	4,151.8	2,203.0	+ 0.3	–48.5	+43.5	+72.1
Italy (BCI)	1,308.2	1,310.9	959.4	+ 0.6	–40.1	+19.8	+43.7
Japan (Nikkei 225)	10,852.5	11,161.7	7,607.9	– 1.4	–72.1	+26.5	+42.3
(Topix)	1,058.2	1,105.6	770.6	– 1.1	–63.3	+25.5	+41.1
Netherlands (AEX)	359.2	359.2	218.4	+ 0.5	–48.8	+11.3	+33.5
Spain (Madrid SE)	847.2	847.2	576.8	+ 0.7	–26.1	+33.6	+60.3
Sweden (Affarsvarlden Gen)	199.1	199.9	127.8	+ 1.0	–50.3	+37.1	+64.6
Switzerland (Swiss Market)	5,803.3	5,803.3	3,675.4	+ 2.1	–31.0	+25.3	+39.0
United States (DJIA)	10,468.4	10,702.5	7,524.1	– 1.5	–10.7	+25.5	+25.5
(S&P 500)	1,128.5	1,155.4	800.7	– 1.7	–26.1	+28.3	+28.3
(NASDAQ Comp)	2,077.4	2,153.8	1,271.5	– 3.0	–58.9	+55.5	+55.5
Europe (FTSE Eurotop 300)*	995.9	995.9	682.7	+ 0.3	–41.6	+16.2	+39.4
Euro area (FTSE Ebloc 100)*	872.9	872.9	565.7	+ 0.7	–43.7	+21.5	+45.8
World (MSCI)†	1,061.4	1,073.8	710.8	– 1.0	–26.7	+34.0	+34.0
World bond market (Citigroup)‡	610.3	614.9	518.6	+ 0.1	– 0.7	+16.2	+16.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jan 29th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Jan 28th	year ago	Currency units per $ Jan 28th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 14.9	Nov	− 27.2	Q3	− 5.9	− 5.2	89.8	75.3	1.29	1.69	2.36	1.62	1.22	0.8
Austria	− 0.6	Oct	− 0.1	Nov	− 0.1	− 0.1	102.8§	101.1	0.79	0.92	1.45	–	0.75	-1.3
Belgium	+ 19.8	Nov	+ 9.9	Sep	+ 4.4	+ 4.4	102.9§	100.4	0.79	0.92	1.45	–	0.75	0.2
Britain	− 73.5	Nov	− 36.1	Q3	− 1.9	− 1.9	103.0	104.2	0.55	0.61	–	0.69	0.52	-2.9
Canada	+ 41.1	Nov	+ 16.7	Q3	+ 1.9	+ 1.5	86.7	77.0	1.32	1.53	2.42	1.67	1.25	1.0
Denmark	+ 9.9	Nov	+ 5.9	Nov	+ 2.9	+ 2.7	107.0	104.6	5.92	6.84	10.8	7.45	5.61	0.8
France	+ 4.6	Nov	+ 20.3	Nov	+ 1.3	+ 1.3	106.3§	103.4	0.79	0.92	1.45	–	0.75	-4.0
Germany	+142.6	Nov	+ 56.2	Nov	+ 2.4	+ 2.6	103.8§	100.4	0.79	0.92	1.45	–	0.75	-4.1
Italy	+ 2.9	Nov	− 19.3	Nov	− 1.1	− 1.0	75.8§	73.7	0.79	0.92	1.45	–	0.75	-2.7
Japan	+102.5	Nov	+132.0	Nov	+ 3.0	+ 3.0	137.8	131.6	106	118	193	133	–	-7.4
Netherlands	+ 32.6	Nov	+ 17.7	Q3	+ 2.9	+ 3.2	102.3§	99.5	0.79	0.92	1.45	–	0.75	-2.4
Spain	− 51.1	Oct	− 25.0	Oct	− 2.3	− 2.3	77.0§	75.3	0.79	0.92	1.45	–	0.75	0.1
Sweden	+ 18.7	Dec	+ 14.8	Q3	+ 4.6	+ 4.4	81.9	78.6	7.26	8.47	13.3	9.14	6.88	0.2
Switzerland	+ 6.2	Nov	+ 29.4	Q3	+10.8	+10.7	111.0	116.3	1.25	1.35	2.28	1.57	1.18	na
United States	−548.6	Nov	−541.7	Q3	− 5.0	− 5.3	94.6	107.8	–	–	1.83	1.26	0.95	-4.9
Euro area	+ 84.2	Nov	+ 42.1	Oct	+ 0.4	+ 0.6	92.1	86.1	0.79	0.92	1.45	–	0.75	-2.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.4	Nov	+ 9.9	Nov	na	na	81.6§	79.3	0.79	0.92	1.45	–	0.75	2.6
Greece	− 24.9	Nov	− 10.4	Nov	na	na	59.4§	58.2	0.79	0.92	1.45	–	0.75	-1.6
Iceland	− 0.2	Nov	− 0.4	Q3	na	na	92.9**	91.9	68.8	77.7	126	86.6	65.2	-1.0
Ireland	+ 38.6	Oct	− 2.1	Q3	na	na	94.5§	89.8	0.79	0.92	1.45	–	0.75	-1.0
Luxembourg	− 3.3	Nov	+ 2.0	Q3	na	na	102.9§	100.4	0.79	0.92	1.45	–	0.75	-0.3
New Zealand	− 2.0	Dec	− 3.3	Q3	na	na	104.6	95.8	1.48	1.82	2.71	1.86	1.40	2.6
Norway	+ 28.1	Dec	+ 28.4	Oct	na	na	92.9	106.1	6.92	6.87	12.7	8.71	6.56	9.8
Portugal	− 13.0	Oct	− 8.1	Oct	na	na	93.2**	91.1	0.79	0.92	1.45	–	0.75	-2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, November average. ‡OECD estimate.

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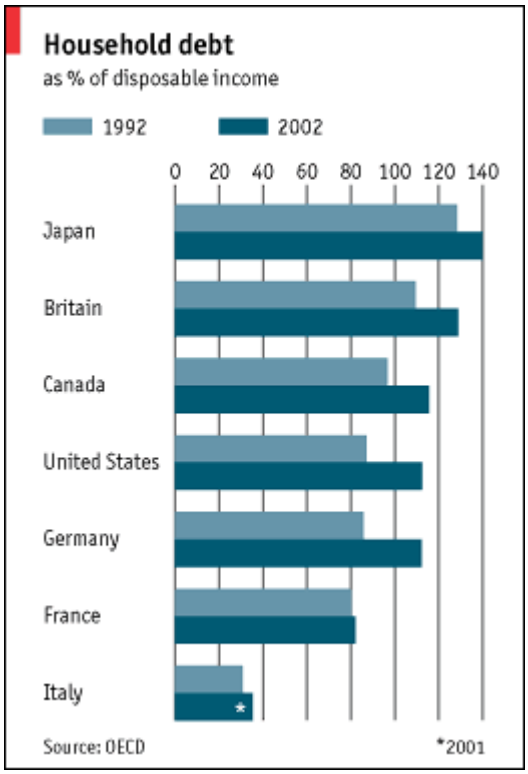
Household debt

Jan 29th 2004
From The Economist print edition



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Overview

Jan 29th 2004
From The Economist print edition

In the **Philippines**, GDP rose by 4.5% in the year to the fourth quarter, but its industrial production fell sharply, declining by 8.0% in the year to November. In **Singapore**, industrial production rose by a meagre 0.3% in the year to December, a sharp slowdown from recent double-digit growth rates.

Russia chalked up a trade surplus of $59.6 billion in 2003, up from $46.3 billion in 2002. The trade balance was boosted by higher prices for Russia's oil, gas and mineral exports. By contrast, **Turkey's** trade deficit widened to $20.4 billion in the 12 months to November.

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The Economist poll of forecasters

Jan 29th 2004
From The Economist print edition

Every three months, *The Economist* polls a group of forecasters and averages their predictions for economic growth and current-account balances in 25 emerging economies. Compared with our last poll in October, our forecasters have become more optimistic about GDP growth in 18 economies in 2004. The biggest upward revisions to growth prospects are in Thailand (6.6%, up from 4.5% in October), Venezuela (up from 6.3% to 7.4%) and China (up from 7.7% to 8.5%). If so, China will once again be the fastest sprinter, even though growth is expected to slow from 9.2% in 2003. The biggest downward revisions to growth in 2004 were in the Czech Republic, which is now expected to grow by only 2.4%, and South Africa (2.8%).

The Economist poll of forecasters

January

	Real GDP % change		Current account % of GDP	
	2003	2004	2003	2004
China	9.2	8.5	1.8	1.4
Hong Kong	2.9	5.7	12.4	12.9
India	6.1	6.5	0.3	nil
Indonesia	3.9	4.6	4.0	3.0
Malaysia	4.9	5.7	10.3	8.6
Philippines	4.1	4.0	2.6	2.7
Singapore	0.8	5.6	26.7	23.0
South Korea	2.5	5.3	1.7	1.7
Taiwan	3.1	5.0	8.3	7.0
Thailand	6.2	6.6	5.6	4.4
Argentina	7.2	5.1	6.6	4.6
Brazil	0.2	3.4	0.6	–0.6
Chile	3.2	4.6	–0.7	–0.5
Colombia	3.1	3.2	–2.1	–1.9
Mexico	1.5	3.5	–2.2	–2.6
Peru	2.1	3.8	–1.7	–1.5
Venezuela	–9.3	7.4	10.7	8.2
Egypt	2.4	3.2	1.9	0.3
Israel	1.0	2.3	0.3	–0.4
South Africa	1.9	2.8	–1.3	–1.9
Turkey	5.3	4.6	–3.0	–3.0
Czech Republic	1.8	2.4	–4.9	–4.3
Hungary	2.7	3.0	–6.8	–6.0
Poland	3.6	4.6	–1.9	–2.9
Russia	6.8	5.6	8.9	4.7

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; J.P.Morgan Chase; Merrill Lynch; Citigroup; UBS Warburg.

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Economy

Jan 29th 2004
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+18.1	Dec	+ 3.2	Dec	+25.5	Dec	+35.4	2002	406.0	Oct
Hong Kong	+ 4.0	Q3	– 9.2	Q3	– 1.9	Dec	– 8.6	Dec	+16.7	Q3	118.4	Dec
India	+ 8.4	Q3	+ 7.4	Nov	+ 3.1	Nov	–14.8	Dec	+ 2.3	Q3	96.6	Dec
Indonesia	+ 3.9	Q3	+ 4.7	Jul	+ 5.1	Dec	+26.8	Nov	+ 8.1	Q2	33.8	Nov
Malaysia	+ 3.5	Q3	+11.7	Nov	+ 1.2	Dec	+19.3	Nov	+11.9	Q3	43.0	Nov
Philippines	+ 4.5	Q4	– 8.0	Nov	+ 3.1	Dec	– 1.7	Nov	+ 3.1	Oct	13.4	Dec
Singapore	+ 3.7	Q4	+ 0.3	Dec	+ 0.7	Dec	+16.2	Dec	+25.6	Q3	96.3	Dec
South Korea	+ 2.3	Q3	+ 4.7	Nov	+ 3.4	Dec	+14.4	Dec	+ 9.4	Nov	155.3	Dec
Taiwan	+ 4.2	Q3	+12.4	Dec	– 0.1	Dec	+17.0	Dec	+28.8	Q3	206.6	Dec
Thailand	+ 6.5	Q3	+ 7.4	Nov	+ 1.8	Dec	+ 4.5	Nov	+ 8.1	Nov	40.2	Nov
Argentina	+ 9.8	Q3	+13.0	Nov	+ 3.7	Dec	+16.6	Nov	+ 8.9	Q3	14.1	Dec
Brazil	– 1.5	Q3	+ 0.3	Nov	+ 9.3	Dec	+24.8	Dec	+ 4.1	Dec	49.3	Dec
Chile	+ 3.0	Q3	+ 1.2	Dec	+ 1.1	Dec	+ 2.9	Dec	– 0.3	Q3	15.9	Dec
Colombia	+ 4.0	Q3	+ 4.9	Nov	+ 6.5	Dec	– 0.2	Oct	– 1.6	Q3	10.5	Dec
Mexico	+ 0.4	Q3	– 0.3	Nov	+ 4.0	Dec	– 5.6	Dec	–10.5	Q3	57.3	Nov
Peru	+ 0.9	Nov	+ 0.8	Nov	+ 2.5	Dec	+ 0.6	Nov	– 1.2	Q3	9.5	Dec
Venezuela	– 7.1	Q3	– 4.8	Oct	+27.1	Dec	+14.0	Q3	+ 8.9	Q3	14.2	Sep
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.2	Oct	– 6.0	Jul	+ 3.3	Q3	14.4	Dec
Israel	+ 2.8	Q3	+ 3.0	Nov	– 1.9	Dec	– 6.0	Dec	– 0.2	Q3	26.1	Dec
South Africa	+ 1.6	Q3	– 3.8	Nov	+ 0.3	Dec	+ 2.0	Nov	– 1.3	Q3	6.5	Nov
Turkey	+ 4.8	Q3	+ 3.9	Nov	+18.4	Dec	–20.4	Nov	– 5.6	Oct	33.6	Dec
Czech Republic	+ 3.4	Q3	+ 4.8	Nov	+ 1.0	Dec	– 2.4	Nov	– 7.8	Q3	27.0	Dec
Hungary	+ 2.9	Q3	+ 9.7	Nov	+ 5.7	Dec	– 4.0	Nov	– 5.0	Nov	12.8	Dec
Poland	+ 3.9	Q3	+13.9	Dec	+ 1.7	Dec	– 9.5	Nov	– 2.9	Nov	32.6	Dec
Russia	+ 5.7	Q3	+ 7.9	Dec	+12.0	Dec	+59.6	Dec	+39.1	Q4	73.2	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 4.6	Q3	+ 9.5	Dec	+ 1.1	Dec	– 1.9	Nov	– 1.5	Q3	1.1	Nov
Latvia	+ 7.3	Q3	+ 1.0	Nov	+ 3.6	Dec	– 2.0	Nov	– 0.9	Nov	1.4	Nov
Lithuania	+ 8.4	Q3	na		– 1.3	Dec	– 2.4	Nov	– 1.1	Q3	3.0	Nov
Slovakia	+ 4.2	Q3	+ 4.1	Nov	+ 9.2	Dec	– 0.6	Nov	– 0.8	Sep	10.9	Nov
Slovenia	+ 2.3	Q3	+ 2.4	Nov	+ 4.6	Dec	– 0.8	Nov‡	nil	Nov	8.0	Oct
Pakistan	+ 5.1	2003†	+ 9.9	Aug	+ 5.4	Dec	– 1.3	Dec	+ 3.6	Q3†	10.8	Nov
Saudi Arabia	+ 1.0	2002	na		– 0.9	Sep	+41.8	2002	+11.9	2002	24.5	Nov

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Jan 29th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 28th		Dec 31st 2002	
	Jan 28th	year ago	Jan 28th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.2	na	1,677.3**	nil	+ 18.2	+ 18.2
Hong Kong	7.77	7.80	14.2	0.12	13,431.8	– 2.3	+ 44.1	+ 44.7
India	45.3	47.8	83.0	4.24	5,876.1	+ 2.0	+ 74.0	+ 84.1
Indonesia	8,418	8,850	15,411	8.39	767.1	– 1.2	+ 80.5	+ 91.9
Malaysia	3.80	3.80	6.96	3.03	819.9	– 0.6	+ 26.8	+ 26.8
Philippines	55.9	53.7	102.3	7.50	1,549.0	– 0.8	+ 52.1	+ 45.4
Singapore	1.69	1.73	3.10	0.81	1,862.8	– 1.4	+ 38.9	+ 42.4
South Korea	1,172	1,166	2,145	4.20	859.9	– 0.2	+ 37.0	+ 38.7
Taiwan	33.3	34.6	61.0	1.15	6,386.3	+ 1.9	+ 43.4	+ 49.8
Thailand	39.0	42.7	71.5	1.34	722.1	– 5.8	+102.6	+123.6
Argentina	2.92	3.33	5.35	4.13	1,181.5	– 3.5	+125.1	+159.4
Brazil	2.88	3.64	5.27	16.33	23,851.6	+ 2.4	+111.7	+160.2
Chile	584	739	1,070	2.04	7,117.0	– 0.5	+ 41.8	+ 74.8
Colombia	2,724	2,949	4,988	7.90	2,704.6	+ 4.3	+ 68.1	+ 76.9
Mexico	10.9	11.0	20.0	4.69	9,551.1	+ 1.3	+ 55.9	+ 49.4
Peru	3.48	3.50	6.38	2.46	2,782.7	– 0.4	+ 99.9	+101.8
Venezuela	2,949§	1,922	5,399	20.04	28,268.9	– 1.5	+252.7	+ 65.9
Egypt	6.16	5.36	11.27	6.89	13,462.0	– 1.0	+150.6	+ 88.5
Israel	4.48	4.85	8.21	1.60	561.2	– 0.6	+ 68.8	+ 78.9
South Africa	6.93	8.60	12.7	8.05	10,862.1	– 0.5	+ 17.1	+ 45.0
Turkey	1,338,500	1,648,000	2,450,526	23.00	17,902.0	– 5.3	+ 72.6	+114.1
Czech Republic	26.4	29.0	48.3	2.06	689.9	+ 0.2	+ 49.8	+ 70.9
Hungary	209	224	382	12.58	10,005.4	+ 3.8	+ 28.3	+ 38.3
Poland	3.78	3.79	6.92	5.44	21,829.9	– 1.4	+ 51.9	+ 54.2
Russia	28.5	31.8	52.1	14.00	611.5‡	+ 1.1	+ 51.8	+ 70.3
EMF (MSCI)*	1.00	1.00	1.83	na	468.8	+ 0.7	+ 60.5	+ 60.5
EMBI+†	1.00	1.00	1.83	na	299.6	– 0.9	+ 30.9	+ 30.9

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Floating exchange rate. **Jan 16th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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